THE ADMINISTRATION'S BUDGET PROPOSALS

HEARING

BEFORE THE

COMMITTEE ON THE BUDGET
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

FIRST SESSION

HEARING HELD IN WASHINGTON, DC, AUGUST 3, 1995

Serial No. 104–16

Printed for the use of the Committee on the Budget

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THE ADMINISTRATION'S BUDGET PROPOSALS

THURSDAY, AUGUST 3, 1995

House of Representatives,
Committee on the Budget,
Washington, DC.

The committee met, pursuant to notice, at 10:40 a.m., in room 210, Cannon House Office Building, Hon. John R. Kasich, (chairman of the committee) presiding.

Chairman Kasich. The committee will come to order. I want to welcome this morning the Director of CBO, June O'Neill, Dr. O'Neill, and what we are really interested in doing this morning, Doctor, is to hear from the Congressional Budget Office, the official scorekeeper of our actions up here. And I say that sometimes we like your scorekeeping results and sometimes we do not.

Unfortunately when I one time expressed what I did not like about it, we had a meeting with you 15 minutes later, so we want to hear your view on the President's budget. Frankly, the reason why I wanted to have the hearing is that when the President's proposal emerged I was under the belief that it, in fact, was going to be CBO scored. And then very soon afterwards, of course, we asked you to analyze that budget, and then you came back and you showed $200 billion deficits in the budget, which I was very disappointed in. Because the people who told me that this was a serious proposal were people that I happen to personally like.

So I was stunned, to tell you the truth, that this was not CBO scored. And then, oh, I guess a couple of weeks later we had gone through some discussion about the proposal and I had had an opportunity to discuss this with some administration officials. I think the media gave the administration's plan a pretty severe panning based on the fact that it was not CBO scored, and yet, people continue to talk about this plan as though it does, in fact, balance the budget.

I thought that we ought to get the official scorekeeper to come in and to give us a real sense of what you found in your analysis.

Now, how did CBO get to be the official scorekeeper in the process? Well, it was as a result of the President's speech to the Congress and we have, for us this morning, part of the President's speech. I guess, as George Michael says, let us to go the videotape. [Videotape is played.]

Thank you. Now, at the time, we were pretty cynical about CBO because we were getting some scoring that we did not like up here. And I have to tell the Director that when we went through our Medicare scoring this last time I was distraught at times over the

kind of analysis that the CBO was giving us. But I was prepared to live with it.

And, as one who has been the target of claims that we cooked the books, you know, we may cook the books or we may have dynamic scoring or all this other business, we did not do that. We went with real numbers based on your analysis.

So, I think it is just very important that as we head into the process of the fall and through reconciliation and into discussions with the administration, because we obviously cannot get a final agreement unless the President, the administration, we can reach some kind of a compromise. And it is impossible to reach a compromise on the price of a car if you cannot even agree about which car you are talking about buying.

So, I think it is important that we have the hearing today. I think it is important that Dr. Rivlin is here because I am going to tell you right now, we cannot reach agreement until we agree on the numbers. We cannot reach agreement until we are going to operate off the same set of books. It is just that simple.

Now, once we can achieve the fact that we can use the same books and the same calculations then I think it is possible to reach agreement. But we cannot do it unless we are all singing from the same hymn book. I appreciate your being here today, Director, and I look forward to your testimony and would now turn to Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

Mr. Chairman, we are coming along in this process and we wait with interest as your plan develops on whatever your time schedule is. Some things we know, for certain, at this point. The tax cut has passed the House at a substantially larger sum than is included in the budget resolution. We know who benefits from that tax cut. We know that it digs the deficit hole deeper. We have now seen, as we process the appropriations bills, the impact of your budget resolution on a whole host of people, whether it be in the enforcement capabilities of the EPA; whether it is the impact on people who have severe housing needs in this country as those programs are cut dramatically; or as we deal with the labor-HHS bill on the House floor, where we see very dramatic cuts in very basic educational funding and funding for basic safety in this country, Mr. Chairman.

We wait for the balance of your program. I commend the chairman for his announcement that he would hope that the majority's plan for change in Medicare would be made public so that the public can react to that program in advance of its consideration of the full House. I think your advice is good. I hope the members of your party follow that advice.

One is dealing with a very fundamental institution in American society of guaranteeing health care for seniors in this country as one deals with Medicare. And there will be always many disputes involved. One over the level of spending that is needed to maintain the quality of medical care for the seniors, but equally important will be whenever that question is resolved, an equally important debate will be how you do it.

There is not simply one way to do it. There are a variety of ways and I expect as people become conscious of how, the debate over how will be as important as the question of how much. And the

only way one can have that public debate is if people have some idea of the approach being taken. Having something that important pass very quickly, late some night in the committee, and then on the floor a couple of days later hardly gives the public the ability to respond.

Frankly, I think the ability of the public to have some time to respond might well improve your product. So I hope and encourage your leadership and your committees to follow your advice, Mr. Chairman, to make that plan public so that we can respond to it.

Mr. Chairman, as it relates to the question before us, I look at the varying economic assumptions from the administration and CBO and the differences are not very great, frankly. We are not seeing the types of variations that we grew used to in the 1980's, when we got huge and unrealistic expectations projected by administrations to cook the books.

The differences between CBO and OMB are rather modest and I expect with certainty that 7 years from now we would look back and discover that neither was accurate. That reality will be somewhat different. But it is a reminder, as we try to say that we can deal with certainty for the next 7 or 10 years, that very modest differences in economic assumptions and economic reality from what we assume in interest rates and growth in the economy have dramatic impacts on what happens with the Federal budget over that period of time. And, in many cases, these differences have a much greater impact than the specific decisions we make on spending for particular programs.

Mr. Chairman, you now have to deal with CBO scoring. Frankly, we had to deal with that 2 years ago; 2 years ago, the administration used the same economic assumptions as CBO but the scorekeeping was different. And one of the dilemmas of our system is different scorekeeping with different assumptions.

We, frankly, got administration policy and found we had to make adjustments because CBO scored differently. We were in your same shoes and it was not always fun, but we had to do it. I always kept waiting for the day that CBO gave us good news and that never seemed to happen. It always seemed to make problems a little more difficult for us to deal with. So that is nothing new, but the differences as I look at them are very modest. I think, clearly you are right, that at a time when we come to final solution one has to have common agreement on economic assumptions between the administration and Congress. But the differences are not dramatic and it is simply a reminder that minor differences have a very substantial impact.

I am not sure it is appropriate at this point to ask a question, but as I look at both CBO and OMB estimates, when I look at health care both of you are projecting a huge increase in 1996 over 1995, and then a decrease in 1997, with little difference between the two of you. But both of you project this significant increase in 1996 and I am curious why?

Ms. O'NEILL. Do you want me to answer that question right now or later on?

Mr. SABO. No.

Chairman KASICH. If Martin wants to ask a question, you can go ahead and answer it, doctor, but Martin was the manager of that

softball team and could not score a run and we will make him feel better. Go ahead, June.

Mr. SABO. The reason was that Kasich was not there to play defense and screw up.

[Laughter.]

Chairman KASICH. Doctor, go ahead and give him an answer.

Ms. O'NEILL. Baseball is not my forte, but the answer to the Medicare question is that for 1995, the Office of Management and Budget [OMB] had a lower estimate than the Congressional Budget Office [CBO]. Medicare has actually come in pretty close to what we have estimated. OMB's estimate is probably $3 billion or so short.

For 1996, both OMB and CBO have assumed that the 1995 experience is a slight aberration and that growth will pick up. But there is a difference in our growth rates in the long term, which really is what drives the budget projections. CBO sees continuing high growth of close to 10 percent. OMB also sees high growth, but it is half a percent or so lower. That, of course, accumulates to a large amount.

Mr. SABO. Mr. Chairman, if I might follow up, and this is of relevance I expect to both the majority and to the administration, the numbers as I have them are that for 1996 CBO is projecting 13.1 percent growth in Medicare and OMB 14.2. And for Medicaid, CBO is 11.3, and OMB is 8.6. So there is some variation there.

But in both cases it is 2 or 3 percent higher than 1995 and then it falls off again.

Ms. O'NEILL. It sounds like Medicare Part B. I will check that. I think it would be better if I provided you with that answer in writing.

[The information mentioned follows:]

PROJECTED GROWTH IN MEDICARE SPENDING

The following table shows Medicare spending in fiscal years 1993 and 1994 and CBO's projections for 1995 through 1998 under current law. CBO's projections assume that the rate of growth of spending for hospital insurance—HI, or Medicare Part A—peaked in 1994 and will slow gradually thereafter. The rate of growth of spending for supplementary medical insurance—SMI, or Medicare Part B—is projected to peak in 1996.

The recent surge in spending for SMI stems primarily from the formula for updating the fee schedule for physicians. In 1992 and 1993, as the new fee schedule was introduced, total spending on physicians' services grew relatively slowly. The slow spending in 1992 and 1993 caused relatively high updates in calendar years 1994 and 1995 and boosts the growth of spending in fiscal years 1994 through 1996.

CBO BASELINE PROJECTIONS OF MEDICARE SPENDING

[By fiscal year]

	Actual		Projected			
	1993	1994	1995	1996	1997	1998
In billions of dollars:						
Hospital insurance	$91.6	$102.8	$113.6	$125.4	$136.8	$148.3
Supplementary medical insurance	54.3	59.7	67.6	76.8	85.9	95.6
Total	145.9	162.5	181.1	202.2	222.7	243.9
Annual growth rate in percent:						
Hospital insurance	11.7	12.2	10.5	10.4	9.2	8.4

CBO BASELINE PROJECTIONS OF MEDICARE SPENDING—Continued

[By fiscal year]

	Actual		Projected			
	1993	1994	1995	1996	1997	1998
Supplementary medical insurance	7.9	10.1	13.2	13.7	11.7	11.3
Total	10.3	11.4	11.5	11.7	10.1	9.5

Mr. SABO. OK. Both of you have the same pattern with a slight variation, but it is sort of an unusual one as I look at it.

Ms. O'NEILL. Especially in the near term, we work with the same set of data. We are usually closer together within the budget year or for the next year than we are farther out into the future.

Chairman KASICH. OK. Doctor, thank you.

Go ahead and run through the testimony.

STATEMENT OF JUNE E. O'NEILL, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Ms. O'NEILL. Mr. Chairman and members of the committee, I am certainly very pleased to be here today. In my comments I will describe CBO's preliminary assessment of the administration's new plan, and I will try to explain the differences, which are frequently rather complicated, between CBO's assessment and that of the administration.

CBO, as has been said, has been put in a position of importance during this budget process, particularly given the serious attempt to balance the budget. And we, at CBO, have been working very hard and are, I can assure you, very aware of the gravity of our responsibilities.

I will submit my prepared statement for the record, if that is all right.

First, I would like to point out that CBO has used a common set of budget projections to make it easier to compare the policy changes proposed in the President's new budget with those proposed by the Congress in the budget resolution. CBO's April 1995 baseline projections, with an adjustment for the rebenchmarking of the Consumer Price Index, serve as the common set of projections. As you know, CBO is now in the process of updating the April projections for release later this month, but we anticipate that the revisions will have little effect on our analysis of the President's budget.

To give you a brief preview, under our August revisions, the deficit in 1995 is expected to be between $160 billion and $165 billion instead of the $175 billion we had projected in April. The 1996 baseline deficit will also be lower than what we had earlier projected. However, our projections of the deficit after 1996 are likely to be quite close to the April projections.

Now, to turn to the President's budgetary plan, the 5-year budget submitted by the administration in February recommended changes in policies that would have reduced the cumulative deficit by only about $30 billion between 1995 and 2000. Therefore, it would not have substantially changed the budget deficits projected under current law.

The President's July budgetary plan retains most of the elements of the February budget, but in contrast to the February budget, it extends the fiscal horizon through 2005 and assumes additional savings intended to achieve budgetary balance in 9 years. Reductions in discretionary spending would account for close to half the total savings from program reductions, reductions in Medicare growth would account for an additional 30 percent of the total, and reductions in spending on Medicaid and other mandatory programs account for the rest.

The administration's July package also contains several health initiatives. In addition to providing for spending reductions in Medicare and Medicaid, the administration proposes a number of new benefits including health insurance subsidies for the unemployed for up to 6 months, grants to States for home- and community-based long-term care, an Alzheimer's respite care benefit within Medicare, and elimination of the copayment for mammograms.

As explained by the staff of the Office of Management and Budget, or OMB, the additional budgetary savings included in the administration's new plan are indicative proposals that as yet do not represent specific policies. Therefore, a detailed program-by-program evaluation of the President's July budget is not possible at this time.

For that reason, CBO has relied entirely on the administration's own estimates of the proposed savings in making our preliminary assessment of the President's new plan. Because of the different budgetary rules governing discretionary and mandatory programs, CBO has used different methods for calculating savings in the two budgetary categories. For defense and nondefense discretionary spending, CBO's estimates assume the level of outlays specified in the President's plan. For the mandatory programs and for revenues, CBO simply uses the net savings or costs of the policy changes specified by the administration and then applies them to the CBO baseline.

Our bottom line is that the President's revised budget would hold the total deficit to about $200 billion a year if the plan is enacted and implemented as assumed. A budget deficit of $200 billion would represent about 2 percent of the gross domestic product, or GDP, in the year 2005. That would be a moderate reduction from CBO's baseline deficit, which averages more than 3 percent of GDP over the 1995–2005 period.

The reduction in the deficit under the President's policies could allow for a modest drop in interest rates compared with those in CBO's baseline. However, because of the uncertainty surrounding the President's plan and the estimates of its effects on the budget, CBO has not incorporated a drop in interest rates attributable to deficit reduction. Even if some allowance was made for that effect, deficits under the President's July budget would be likely to remain near $200 billion through 2005.

In contrast to the deficit of $201 billion in 2005 estimated by CBO, the administration projects that its policies would produce a budget surplus of $41 billion in that year. What accounts for that difference of $241 billion between the two estimates? The most important reason for the difference is that CBO's baseline deficit is much higher than that projected by the administration. CBO

projects that the baseline deficit will reach $454 billion in 2005; OMB projects a baseline deficit of only $266 billion for the same year. Because of the large differences in the two estimates of the deficits expected before any policy changes are made, the same dollar reductions in spending would leave a larger remaining deficit when applied to CBO's higher baseline.

Clearly, the administration perceives a deficit problem that is considerably smaller than the problems shown in CBO's estimates.

The next question is, Why is the CBO baseline higher than the administration's? One important factor is the difference in economic assumptions. Although the economic assumptions of CBO and the administration may appear to be quite similar, the differences in assumptions are, in fact, sufficient to produce marked differences in budget projections that only grow with time. On average, the administration foresees slightly faster real economic growth than does CBO.

Another factor that is less frequently talked about is a technical one—the difference in the growth rate of the Consumer Price Index [CPI] and the GDP deflator—that is also very important. CBO assumes that the CPI will grow significantly faster than the deflator, whereas the administration assumes only slightly faster growth. In other words, the administration has the deflator and the CPI growth rates quite close together. CBO shows a much wider difference, and that wider difference tends to enlarge the deficit.

Largely as a result of differences in economic assumptions, CBO's projection of revenues in 2005 is $55 billion below the administration's. And that revenue difference accounts for close to one-quarter of the overall difference in deficit estimates.

Differences in modeling techniques and in programmatic assumptions also contribute to the difference between CBO's baseline deficit and that estimated by the administration. In 2005 more than $50 billion of the difference in projected spending can be traced to differences in projected spending in the Medicare and Medicaid programs alone. Although CBO believes that the growth of those programs has slowed from the extremely high rates of recent years, it is not as optimistic as the administration about the extent to which such a slowdown would continue without any change in policy.

Differences in estimates of other mandatory programs contribute $33 billion and differences in debt service contribute $50 billion to the CBO/OMB differential in the baseline deficit. Baseline deficits, however, do not account for all of the difference between the estimates of CBO and the administration. The major remaining factor is that the administration credits large additional savings from the lower interest rates they assume will result from their deficit reduction.

For example, in 2005, the administration claims about a $55 billion credit for the so-called fiscal dividend. CBO believes that the administration's plan would produce a much smaller fiscal dividend than OMB anticipates because, as I have indicated, we estimate that the amount of deficit reduction attained would not be sufficient to achieve a fiscal bonus of that size.

In conclusion, the Congressional Budget Office has long stressed the importance of bringing the Federal deficit under control. Large

Federal deficits crowd out capital investment, raise interest rates, and restrict economic growth. If noninterest spending exceeds tax revenues, growing Federal deficits will eventually lead to rapidly rising Federal interest costs, unsustainable increases in the Federal debt, and a reversal in the long-term trend of rising living standards in this country.

The administration's new budget proposal represents a significant first step toward limiting the rise in Federal deficits and debt. CBO estimates that if the plan's targets were met, the budget deficit would remain roughly constant in nominal terms and would decline in relation to the size of the economy. Although the plan would not produce a balanced budget, if carried out, it would start to move Federal fiscal policy off its present and unsustainable course.

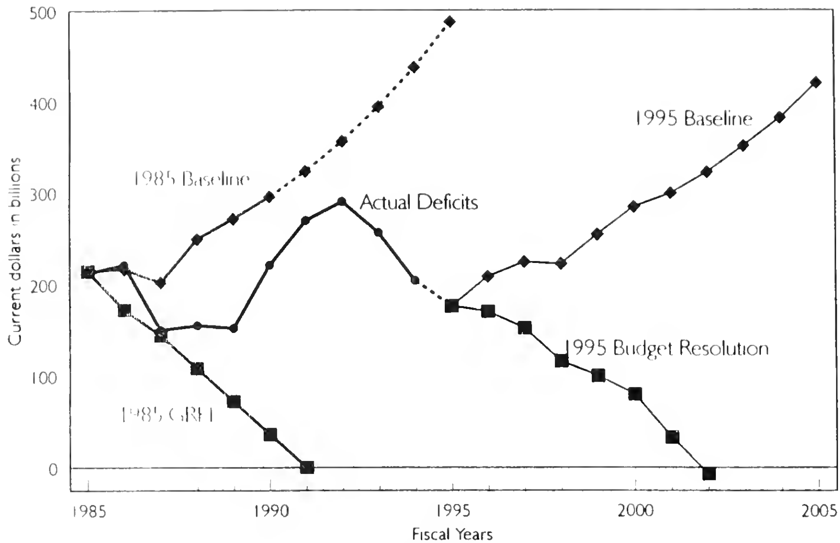
The uncertainties involved in budget projections are legion, and small differences in estimating assumptions can lead to large differences in the projected deficit 5 or 10 years into the future. Although the administration's budget projections are somewhat more optimistic than those of CBO, they fall within the range of plausible outcomes. The 20-year history of congressional budget projections, however, suggests that the budget deficit is much more likely to exceed projections than to come in lower.

In that regard—and I will submit this for the record—the Committee for a Responsible Federal Budget yesterday distributed a graph showing the projected deficit reduction under the Balanced Budget and Emergency Deficit Control Act of 1985—or Gramm-Rudman-Hollings—which was supposed to lead to a balanced budget and, of course, did not. The graph also shows the path that was actually taken compared with the projection.

[The graph mentioned follows:]

1985 and 1995 Deficit Reduction Intiatives

Deja Vu All Over Again?



Note Based on data from CBO January 1985 and 1995 Economic and Budget Outlooks and congressional materials Dashed lines indicate extrapolations

Prepared by the Committee for a Responsible Federal Budget -- July 1995

This time, I believe that there is much more hope that a balanced budget will actually be achieved. But with respect to assumptions and estimates, it is CBO's view that erring on the side of caution increases the likelihood that a balanced budget will actually be achieved in the time desired.

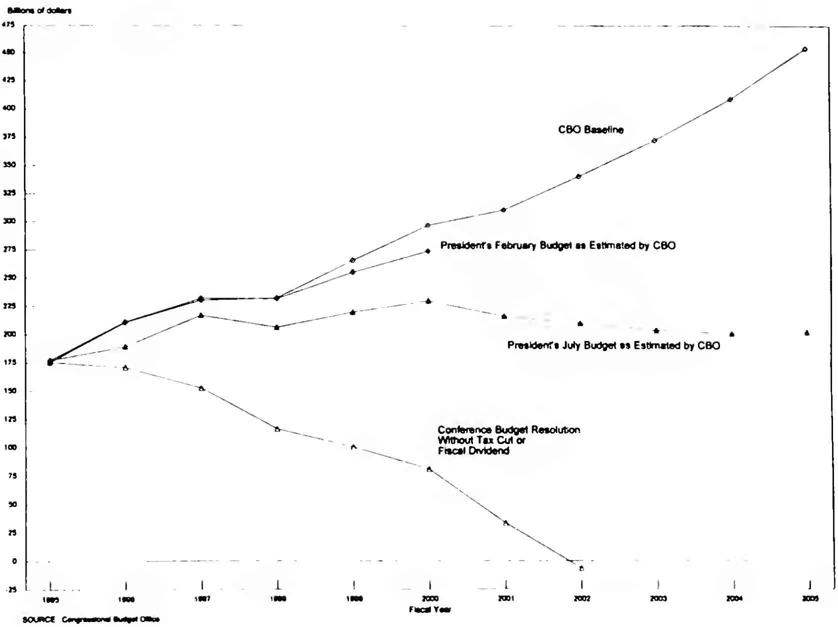
Thank you, and I would be happy to answer any questions that you might have.

[The prepared statement of Ms. O'Neill follows:]

PREPARED STATEMENT OF JUNE E. O'NEILL, DIRECTOR, CONGRESSIONAL BUDGET OFFICE

Chairman Kasich and members of the committee, I am pleased to be with you this morning to review the budgetary plan that the Clinton administration set forth in the "Mid-Session Review of the 1996 Budget," issued on July 31. The budget that the administration submitted in February for fiscal years 1996 through 2000 would not have substantially changed the projected budget deficits. By contrast, the administration's revised budgetary plan for fiscal years 1996 through 2005 includes reductions in corporate subsidies and additional spending savings designed to make large reductions in the Federal deficit (see Figure 1). In my statement today, I will describe the Congressional Budget Office's [CBO's] preliminary assessment of the administration's new plan and explain the differences between CBO's estimates and those of the administration.

FIGURE 1.—COMPARISON OF PROJECTED DEFICITS



CBO previously analyzed the initial version of the administration's amended budget—released on June 13—in testimony that I presented to the Joint Economic Committee. The assessment that I am providing today has been revised to incorporate changes the administration has made to its proposals since June 13. However, because those changes are relatively minor, this analysis differs from our earlier one only in the details.

CBO's estimates of the President's budget are based on CBO's April 1995 baseline projections. CBO is in the process of updating those projections, but the new baseline will not be released until later this month. Because both the budget resolution adopted by the Congress and CBO's estimate of the President's February budget were based on CBO's April projections, using that same baseline for the estimate of the President's July budget makes it easier to compare the changes in fiscal policy proposed in the two budgets submitted by the President and in the budget resolution. In addition, CBO anticipates that the revisions it is currently making to its baseline projections will not substantially affect the analysis of the President's budget.

The baseline deficits for 1995 and 1996 will be lower than CBO projected in April. The deficit in 1995 is expected to be between $160 billion and $165 billion instead of $175 billion. Nevertheless, CBO's August projections of the deficit in the years after 1996 are likely to be quite similar to the earlier projections. Thus, using CBO's August baseline assumptions would bring CBO's estimate of the deficits under the President's policies closer to the administration's estimates in the years 1995 and 1996, but would not substantially affect the estimates for later years.

THE ADMINISTRATION'S BUDGETARY PLAN

The budget submitted by the administration in February recommended changes in policies that would have reduced the cumulative deficit by about $30 billion between 1995 and 2000. The President proposed tax changes that would shrink revenues by $60 billion over the 6-year period. The major tax initiative would provide for tax relief in the form of a nonrefundable tax credit for families with young children, a deduction for postsecondary education and training expenses, and an expansion of individual retirement accounts. Proposed savings in Medicare, stemming primarily from extending provisions of the Omnibus Budget Reconciliation Act of 1993 that expire at the end of 1998, and other mandatory programs offset only about $17

billion of the revenue loss. The President also proposed to sell assets that CBO estimated would produce almost $8 billion in receipts. Finally, compared with CBO's baseline, which allows for inflation in discretionary programs after 1998, the President's February budget would have reduced discretionary spending by a cumulative total of $67 billion, with most of the reductions occurring in 1999 and 2000.

The President's July budgetary plan retains most of the elements of the February budget. In addition, it extends the fiscal horizon through 2005 and assumes additional savings intended to achieve budgetary balance in 9 years. The major new areas targeted for reduction are:

Discretionary spending—$119 billion in cuts in 2005 and $513 billion in cumulative reductions over the 1996–2005 period compared with CBO's baseline with discretionary inflation alter 1998;

Medicare—$66 billion in 2005 and $289 billion over the 1996–2005 period;

Medicaid—$19 billion in 2005 and $105 billion in total;

Welfare programs—$8 billion in 2005 and $57 billion in total; and

Corporate subsidies—$6 billion in 2005 and $43 billion in total.

The administration's July package also contains several health initiatives. In addition to providing for spending reductions in Medicare and Medicaid, the administration proposes a number of new benefits, including subsidies of health insurance for people unemployed up to 6 months, grants to States for home- and community-based long-term care, an Alzheimer's respite care benefit within Medicare, and elimination of the copayment for mammograms. The administration would also increase the fraction of health insurance costs that the self-employed can deduct for income tax purposes from 30 percent to 50 percent.

As explained by the staff of the Office of Management and Budget [OMB] in June, the additional budgetary savings included in the administration's new plan are "indicative proposals" that as yet do not represent specific policies. Therefore, a detailed program-by-program evaluation of the President's revised budget is not possible now. Relying on the administration's estimates of the proposed savings, however, CBO has prepared a preliminary assessment of the budgetary effect of the President's new plan.

CBO estimates that the President's July budgetary plan would hold the total deficit to about $200 billion a year if the plan's assumptions were translated into specific policies (see Tables 1 and 2). For comparability with the budget resolution, CBO has adjusted its baseline deficit to reflect the projected effects on mandatory spending and revenues of rebenchmarking the Consumer Price Index [CPI]. In 1998, the weights of the various categories of consumption in the CPI will change from the current 1982–1984 basis to a 1993–1995 basis. The budget resolution adopted by the Congress assumes that this change will reduce the growth of the overall CPI by about 0.2 percentage points a year compared with CBO's winter economic assumptions.

TABLE 1 PRELIMINARY ASSESSMENT OF THE PRESIDENT'S BUDGETARY PROPOSALS (By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	1996-2002	1996-2005
CBO Baseline Deficit with Discretionary Inflation After 1998[a]	210	230	232	266	299	316	349	384	422	472	n.a.	n.a.
Adjustment for Rebenchmarking of the Consumer Price Index	0	0	0	-1	-3	-6	-10	-12	-14	-18	n.a.	n.a.
Adjusted Baseline Deficit	210	230	232	265	296	310	340	372	408	454	n.a.	n.a.
President's Budgetary Proposals[b]												
Discretionary spending	-7	-5	-12	-27	-39	-52	-67	-84	-101	-119	-208	-513
Mandatory spending												
Medicare	-3	-6	-9	-16	-23	-30	-38	-45	-54	-66	-124	-289
Medicaid	-4	-4	-6	-7	-9	-11	-13	-15	-17	-19	-54	-105
Welfare reform	-2	-4	-5	-5	-6	-6	-7	-7	-7	-8	-35	-57
Other	-6	-1	c	4	4	3	-2	-3	-3	-3	3	-6
Subtotal	-16	-15	-20	-24	-33	-44	-59	-70	-81	-96	-211	-457
Revenues[d,e]	3	10	11	14	19	20	21	21	21	23	98	163
Corporate subsidies[e]	-1	-2	-3	-4	-5	-5	-5	-6	-6	-6	-25	-43
Debt service[f]	-1	-2	-3	-5	-9	-14	-20	-30	-41	-55	-54	-179
Total Changes	-21	-13	-26	-46	-67	-94	-131	-168	-208	-253	-399	-1,029
Deficit Under the President's Budgetary Proposals	189	217	206	219	229	216	209	203	200	201	n.a.	n.a.

SOURCES Congressional Budget Office, Office of Management and Budget, *Mid Session Review of the 1996 Budget*

NOTES Numbers may not add to totals because of rounding. n.a. = not applicable

a Assumes compliance with discretionary spending limits through 1998. Discretionary spending is assumed to increase at the rate of inflation after that.

b Discretionary savings equal the difference between CBO's baseline discretionary spending and the levels of discretionary spending specified in the *Mid Session Review of the 1996 Budget*, released July 31, 1995. Mandatory spending savings and revenue changes are at the levels specified in the President's plan. CBO has not reestimated the savings because there is not sufficient detail available at this time to allow a reestimate.

c Less than $500 million.

d Excludes estimated loss of revenues from the Federal Reserve as a result of the Administration's anticipated reduction in interest rates.

e Revenue losses are shown as positive because they increase the deficit.

f Debt service represents CBO's estimate of the reduction in interest payments that would result directly from the noninterest savings shown in this table. It does not include any possible effect from lower interest rates that might result from lower deficits.

TABLE 2 PRELIMINARY ASSESSMENT OF BUDGETARY ESTIMATES UNDER THE PRESIDENT'S POLICIES (By fiscal year, in billions of dollars)

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Outlays										
Discretionary										
Defense	262	257	255	260	268	276	281	282	282	283
Nondefense	283	292	290	289	288	287	288	292	297	301
Subtotal	545	549	545	549	556	563	569	573	579	584
Mandatory[a]										
Medicare[b]	175	192	207	222	238	257	277	303	330	358
Medicaid	96	106	116	128	139	152	165	179	195	213
Other	529	568	599	639	676	703	737	773	813	859
Subtotal	800	866	921	988	1,053	1,111	1,179	1,256	1,338	1,430
Net interest[c]	260	269	278	291	305	315	328	341	353	366
Total	1,605	1,684	1,744	1,828	1,914	1,990	2,077	2,170	2,270	2,380
Revenues[d]	1,416	1,467	1,538	1,609	1,685	1,774	1,868	1,967	2,070	2,179
Deficit Under the President's Budgetary Proposals	189	217	206	219	229	216	209	203	200	201
Deficit as a Percentage of GDP	2.6	2.8	2.5	2.6	2.5	2.3	2.1	1.9	1.8	1.7
Memorandum										
Gross Domestic Product	7,370	7,747	8,152	8,572	9,013	9,483	9,978	10,499	11,047	11,623

SOURCES Congressional Budget Office, Office of Management and Budget, *Mid Session Review of the 1996 Budget*

NOTES Numbers may not add to totals because of rounding

a Projected mandatory spending is based on the Administration's estimates of savings from a current-policy baseline. CBO has not reestimated the savings because there is not sufficient detail available at this time to allow a reestimate.

b Includes receipts from Medicare beneficiary premiums as offsets to Medicare spending.

c Net interest projections are based on CBO's estimate of the reduction in interest payments that would result directly from the noninterest savings shown in this table. They do not include any possible effect from lower interest rates that might result from lower deficits.

d Projected revenues are based on the Administration's estimates of changes from a current policy baseline. CBO has not reestimated the changes because there is not sufficient detail available at this time to allow a reestimate. The projections exclude the estimated loss of revenues from the Federal Reserve associated with the Administration's anticipated reduction in interest rates.

Because of the different budgetary rules governing discretionary and mandatory programs, CBO has used different methods for estimating the savings in the two budgetary categories. For defense and nondefense discretionary spending, CBO's estimate assumes the level of outlays specified in the President's plan. The estimated discretionary savings equal the difference between the level of discretionary spending in CBO's baseline and that in the President's plan. Because CBO's baseline for those programs is higher than the administration's baseline, CBO's estimates of the amounts of discretionary savings are larger than the administration's savings figures. For mandatory spending programs and revenues, CBO's preliminary assessment assumes that the net changes from the baseline equal those specified by the administration. The revenue changes differ from those shown by the administration because they exclude a reduction in Federal Reserve earnings resulting from the administration's assumed drop in interest rates. CBO has estimated the resulting amount of savings in debt service using the interest rates that underlie its April baseline.

Under those assumptions, the budget deficit under the President's policies would represent about 2 percent of gross domestic product [GDP] in 2005. By contrast, CBO's baseline deficit averages more than 3 percent of GDP over the 1995–2005 period. The reduction in the deficit under the President's policies would allow a modest drop in interest rates compared with those in CBO's baseline. Because of the uncertainties surrounding the President's plan and the estimates of its effects on the budget, CBO has not incorporated a drop in interest rates attributable to deficit reduction. But even if some allowance was made for that effect, the deficits under the President's July budget would probably remain near $200 billion through 2005.

The deficits under the President's policies would be significantly higher in 1996 through 2002 than the deficits assumed by the budget resolution, reflecting substantial differences in the policies proposed by the two budget plans. The President proposes about $230 billion more in total discretionary spending over the 7-year period than the budget resolution assumes. In addition, CBO estimates that mandatory spending under the President's proposals would be greater than such spending under the budget resolution's policies. The President proposes to reduce mandatory spending by $211 billion below the current-law projections for 1996 through 2002. By contrast, the budget resolution includes $626 billion in mandatory savings. The larger tax cut anticipated by the budget resolution would only partially offset those differences in discretionary and mandatory spending.

DIFFERENCES BETWEEN CBO AND OMB ESTIMATES

Compared with the deficit of $201 billion in 2005 that CBO estimates, the administration projects that its policies would produce a budget surplus of $41 billion. What accounts for that difference of more than $240 billion between the two estimates?

First, in 2005 the administration assumes about $55 billion in additional savings from lower interest rates—the so-called fiscal dividend. As previously indicated, CBO believes that the administration's plan would produce a much smaller fiscal dividend than OMB anticipates because we estimate that the amount of deficit reduction falls short of that needed to achieve budgetary balance.

Second, CBO's projected baseline deficit is much higher than OMB's. CBO projects that the budget deficit under current policies will reach $454 billion in 2005, assuming that discretionary spending keeps pace with inflation after the discretionary spending limits expire in 1998. By contrast, OMB projects a baseline deficit of only $248 billion for 2005. Excluding differences in discretionary spending, CBO's projected baseline deficit exceeds OMB's by about $190 billion.

The baseline economic assumptions of CBO, with an adjustment for CPI rebenchmarking, underlie the budget resolution. These assumptions appear quite similar to those of the administration (see Table 3). Nonetheless, the differences are sufficient to produce marked differences in budget projections that only grow with time. CBO's summer economic forecast, which will be released later this month, will narrow the differences in 1995 and 1996, but CBO's longer-term economic projections will change very little.

TABLE 3 COMPARISON OF ECONOMIC ASSUMPTIONS, CALENDAR YEARS 1995-2005

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005
Nominal GDP (Billions of dollars)											
Budget resolution	7,127	7,456	7,847	8,256	8,680	9,128	9,604	10,106	10,633	11,188	11,772
Administration	7,091	7,470	7,879	8,310	8,765	9,245	9,745	10,268	10,819	11,400	12,011
Real GDP (Percentage change, fourth quarter over fourth quarter)[a]											
Budget resolution	2.5	1.9	2.4	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Administration	1.9	2.5	2.5	2.5	2.5	2.5	2.4	2.4	2.4	2.4	2.4
GDP Deflator (Percentage change, fourth quarter over fourth quarter)											
Budget resolution	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8	2.8
Administration	2.8	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9	2.9
Consumer Price Index (Percentage change, fourth quarter over fourth quarter)[b]											
Budget resolution	3.2	3.4	3.4	3.2	3.2	3.2	3.2	3.2	3.2	3.2	3.2
Administration	3.2	3.2	3.2	3.2	3.1	3.1	3.1	3.1	3.1	3.1	3.1
Civilian Unemployment Rate (Percent)											
Budget resolution	5.5	5.7	5.8	5.9	6.0	6.0	6.0	6.0	6.1	6.1	6.1
Administration	5.8	5.9	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8	5.8
Three-Month Treasury Bill Rate (Percent)											
Budget resolution	6.2	5.7	5.3	5.1	5.1	5.1	5.1	5.1	5.1	5.1	5.1
Administration, without fiscal dividend	5.7	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5	5.5
Administration, with fiscal dividend[c]	5.7	5.4	5.2	5.0	4.8	4.6	4.6	4.4	4.4	4.4	4.4
Ten-Year Treasury Note Rate (Percent)											
Budget resolution	7.7	7.0	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7	6.7
Administration, without fiscal dividend	6.6	6.8	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0	7.0
Administration, with fiscal dividend[c]	6.6	6.5	6.6	6.4	6.2	6.0	5.8	5.6	5.4	5.3	5.3

SOURCES: Congressional Budget Office, Office of Management and Budget.

a. Based on 1987 dollars.

b. Consumer price index for all urban consumers (CPI-U). Compared with CBO's winter projections, the budget resolution reflects a 0.2 percent decrease in CPI growth resulting from rebenchmarking beginning in 1998.

c. Includes the reduction in interest rates assumed by the Administration to result from the deficit reduction it proposed in the *Mid-Session Review of the 1996 Budget*.

On average, the administration foresees slightly faster economic growth than does CBO. Also, CBO and the administration differ in their projections of the growth of the CPI relative to that of the GDP deflator. CBO assumes that the CPI will grow significantly faster than the deflator, whereas the administration assumes only slightly faster growth. Because the CPI affects indexed benefit programs and tax brackets, whereas the GDP deflator affects estimates of taxable income, CBO's assumption of a larger gap between the two growth rates adds to its projection of the deficit. Largely as a result of differences in economic assumptions, CBO's projection of revenues in 2005 is $55 billion below the administration's.

Estimating differences unrelated to economic differences also contribute to CBO's estimate of the baseline deficit compared with the administration's estimates. In 2005, more than $50 billion of the difference in projected spending stems from differences in estimated outlays for Medicare and Medicaid. Although CBO believes that the growth of those programs will slow from the extremely high rates of recent years, it is not quite as optimistic as the administration about the extent to which such a slowdown would occur without a change in policy.

Differences in estimates of other mandatory programs contribute $33 billion to the difference between CBO's and OMB's estimates of the baseline deficit. Finally, a $50-billion difference in projected net interest costs primarily reflects the debt service on the increase in the projected deficits that stems from CBO's other reestimates.

CONCLUSION

The Congressional Budget Office has long stressed the importance of bringing the Federal deficit under control. Large Federal deficits crowd out capital investment, raise interest rates, and restrict economic growth. If noninterest spending exceeds tax revenues, growing Federal deficits will eventually lead to rapidly rising Federal interest costs, unsustainable increases in the Federal debt, and a reversal in the long-term trend of rising living standards.

The administration's new budget proposal represents a significant step toward limiting the rise in Federal deficits and debt. CBO estimates that if the plan's tar-

gets were met, the budget deficit would remain roughly constant in nominal terms and would decline in relation to the size of the economy. Although the plan would not produce a balanced budget, if carried out it would start to move Federal fiscal policy off its present, unsustainable course.

The uncertainties involved in budget projections are legion, and small differences in estimating assumptions can lead to large differences in the projected deficit 5 or 10 years in the future. Although the administration's budget projections are somewhat more optimistic than those of CBO, they fall within the range of plausible outcomes. The 20-year history of congressional budget projections, however, suggests that the budget deficit is much more likely to exceed projections than to come in lower. It is CBO's view that erring on the side of caution increases the likelihood that a balanced budget will actually be achieved in the time desired.

Chairman KASICH. Thank you, Director. I just have a couple of charts. I cannot decide. They are all three so wonderfully prepared by the staff. What we did, just so everybody here understands, what we did is we took the President's budget and we took our budget and we forgot the fact that we scored it through the CBO. And we scored it using the same assumptions and everything else that the President used and, as you can see, the President achieves a balanced budget around the year 2004. You know, this is really pretty easy when you look at it this way, is it not?

I can do it, as I said the other day, I can do it in 5 years here. As you can see, we are down to about 5 years in about the year 2000 we reach a balanced budget. We do it in 5 years.

And, as you can see, by the year 2002, using the same economic assumptions that OMB used we have approximately a $100-billion surplus in the year 2002. I hate to announce that here today because the flood gates may open for a few special projects out there, critical projects in Members' districts, if we had an extra $100 billion.

I would make a bet to you if, in fact, I could show that we could get a $100-billion surplus, anybody want to guess what the level of spending restraint would be in the budget resolution we passed? So, as you can see, using the OMB scoring you get a situation there where we can balance in 5 years.

Now, let's look at the next one. You know, that is really a tantalizing way to go, because we can then say we can balance it in 5 years and then have a $100 surplus in 7 years and I do not think that is what we want to do.

Now, here is the CBO deficit scoring, Clinton versus the Congressional budget. And you can see that the President's budget remains at $200 billion deficits all the way along and then, of course, back to our proposal you can see where we reach balance in 2002 and the direction of the deficit. And how about the third chart? There is one more.

The third one is the OMB scoring and it will give you a little outline there, the CBO versus the OMB scoring. And as you can see, again, this is our budget scored and you can then see the dramatic differences between OMB and CBO.

OK, thanks for that.

And I know you kind of went through it but the question, of course, would be what makes the differences? Why would there be so much difference between the two plans?

Let me see if I can help——

Ms. O'NEILL. It is an accumulation of many small things.

Chairman KASICH. Accumulation of a number of things.

Ms. O'NEILL. Of a number of things. It is not just the economic assumptions, and it is certainly not just the economic growth assumptions. We are not that far apart on the——

Chairman KASICH. So a number of sins have been committed here.

Ms. O'NEILL. I do not think you can call each choice a sin, in and of itself, nor is the whole package.

Chairman KASICH. I am glad to hear that.

Ms. O'NEILL. Nobody could stand up and say they know for sure what is going to happen over the next 10 years. But if you look at the history of budget projections, both CBO and OMB have usually been overly optimistic with respect to economic growth. So the truth does not lie in the middle; the truth is usually lower growth than either one of us has been estimating.

CBO has tended to be—we actually did an analysis—over the past 20 years——

Chairman KASICH. So you have an economic growth difference?

Ms. O'NEILL. But that is small. I think it is about one-tenth or two-tenths of a percent a year, but it cumulates to become something larger. But then there are also other economic assumptions that contribute, much as the difference in economic growth.

Chairman KASICH. Let me stop you there. This idea that this is a small difference, one-tenth of a point, multiplied times trillions of dollars, Doctor, isn't that kind of a dangerous way to describe a tenth-of-a-point applying to trillions?

Ms. O'NEILL. No. What I mean is that in 1 year, the difference in our growth assumptions, given the error in forecasting, is one-tenth or two-tenths of a percent. It is not insignificant because it cumulates over the years. So in terms of budget projections it becomes important.

It is not merely that one decision, though. There are many decisions along the way that lead to the total budget projections. They also include an assumption about what will happen under current policy. We are projecting what are usually called the technical assumptions that we use to project the mandatory programs.

Chairman KASICH. Let me help you here because you will get everybody lost in America with this CBO language, OK?

What you are saying is that Medicaid and Medicare, for example, are expected by the Congressional Budget Office to rise at a faster level if left untouched than the administration does.

They expect, just naturally, for there to be a drop in health care costs, more than what you would think.

Ms. O'NEILL. That is correct.

Chairman KASICH. OK. And what other areas would there be besides Medicaid and Medicare differences?

Ms. O'NEILL. I think that, throughout, there is a general tendency for the Congressional Budget Office to see higher rates of growth than the administration does.

Chairman KASICH. They also claim interest savings because they say they cut the budget so much?

Ms. O'NEILL. Yes; that is a different matter.

Chairman KASICH. But that is another matter?

Ms. O'NEILL. That is another matter.

Chairman KASICH. OK, another sin?

Ms. O'NEILL. In this case, we could not give credit for a fiscal dividend that would arise as a result of reducing the deficit because we do not see that the budget is balanced. The administration believes that as a result of balancing the budget within their framework——

Chairman KASICH. So, in other words, you do not believe their budget is balanced?

Ms. O'NEILL. We do not believe that, no; we have estimated that the deficit will——

Chairman KASICH. So the President does not have a plan——

Ms. O'NEILL [continuing]. Remain at $200 billion, which is a large deficit.

Chairman KASICH. So you have not seen a plan from the President that balances the budget in any way, shape, or form, is that correct?

Ms. O'NEILL. That is correct.

Chairman KASICH. OK. Now, in the interest savings they claim there is about what? By balancing the budget, which you say they do not do, how much do they claim in savings?

Ms. O'NEILL. They claim about $55 billion—that is, in 1 year, for 2005. Figured over the whole period, of course, savings would be more.

Chairman KASICH. So you have them guessing we are going to spend less than what you think we are going to do. They claim an interest savings as the result of a balanced budget on a balanced budget that you say does not exist, and give themselves a reward for that.

And of course, the economic growth assumptions which are all based on lower rates and lower interest and all contributes to this mortal sin, as they say in the Catholic world.

Ms. O'NEILL. The difference is in our inflation estimates and is tedious to explain. It is described in my written testimony. But the difference turns out to be quite important with respect to revenue estimates.

Chairman KASICH. Now, let me ask you one final question. What about your methodology? You know, do you not like have people that squirrel themselves away in these rooms and then they kind of come up with these numbers based on some subjective decisions on their part? And this is not rocket science, is it?

Ms. O'NEILL. No, it is certainly not rocket science, but we try to keep the area of subjectivity as small as possible. No one can claim to foresee the future, and there are many variables—for example, Medicare growth over the next 10 years. It would be impossible to fully perceive what might happen. We base our projections on past history. We analyze the elements that have contributed in the past to growth, and we use those to project into the future.

We serve both Houses of Congress, and we serve both parties. So we have many people looking over our shoulders all the time to keep us honest. And we do the most honest job possible.

Chairman KASICH. Sure.

Ms. O'NEILL. We also have a very competent staff, and we try to follow the most recent research findings that we can obtain. We are constantly analyzing these programs.

So it is certainly not a science, and we could certainly be wrong. There is no doubt about that. We have been wrong on occasion; I would not say that we hit the target every year. That certainly would not be right.

Chairman KASICH. Well, so then it is possible that even though the analysts make, you try to keep their subjective judgments to a minimum, those minimal subjective judgments can yield very large results in final estimates, is that not possible?

Ms. O'NEILL. That is true. But because we work back and forth with staff and the Congress, with staff and with Members, we do hear and respond to complaints. I do not mean that we change our estimates because we get a complaint, but if evidence is presented to us that we believe we have overlooked, we will, of course, take it into account.

Chairman KASICH. Thank you.

There is one other critical question. The President's newly revised budget plan has $124 billion in Medicare savings—of course, you could argue that it is $190-some billion in Medicare depending on which of these baselines and assumptions you use—and $79 billion from Part A hospital insurance. Is this amount of savings, $79 billion, sufficient to meet the Medicare trustees' test of financial solvency for the trust fund?

Ms. O'NEILL. By the trustees' definition of solvency, it is not, no.

Chairman KASICH. It is?

Ms. O'NEILL. It is not.

Chairman KASICH. So, in other words, they do not meet the solvency requirement by the trustees' report? In other words, Medicare will still be insolvent under the administration's proposal, is that correct?

Ms. O'NEILL. It will not be in deficit in that final year. However, the trustees' definition of solvency is fairly stringent—it requires a year's worth of payments in the trust fund—and it would not meet that test.

Chairman KASICH. OK. Thank you, Director.

Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

Let me ask just a couple of questions. In terms of the differences between you and the administration in projected economic growth, you are slightly higher in 1995 than the administration and they are slightly higher than you after.

Are the differences dramatic? Are the differences in economic growth projections between you and the administration dramatic over the next 7 or 10 years?

Ms. O'NEILL. The difference in growth in a single year—which in some years is one-tenth of a percent and in some years two-tenths of a percent—is not dramatic, but cumulated over a number of years it leads to a significant difference in the estimates.

Mr. SABO. I notice on interest rates, OMB is actually projecting higher interest rates than CBO is.

Ms. O'NEILL. For their baseline scenario, I believe that is true.

Mr. SABO. That is right.

Ms. O'NEILL. But they then reduce them because of the reduction in the deficit.

Mr. SABO. The so-called growth bonus or——

Ms. O'NEILL. The growth formula.

Mr. SABO. Yes.

Ms. O'NEILL. Right.

Mr. SABO. You will score it, if under other scoring techniques, somebody is not balanced. My understanding is, however, there is also another difference. And over the years we have tried to minimize technical differences. It is my understanding that there is also a technical difference. Even if you had the same amount of total GDP, I understand there is a different methodology by which you and Joint Tax estimate total revenue versus what OMB does? That has not been resolved over the years, is that accurate?

Ms. O'NEILL. I think we are pretty close to the administration in the basic revenue estimates. Because of differences in economic assumptions, we would diverge, but in terms of the technical estimates, I believe we are——

Mr. SABO. I have been told there is some difference——

Ms. O'NEILL [continuing]. Fairly similar, but——

Mr. SABO [continuing]. In that technical system that has existed over the years. Let me ask another question.

I am curious, as you score proposals for change in health care, particularly let us say Medicaid, if one is moving from a reimbursement system to a block grant proposal, how you score transition costs? Because I would assume under any block grant proposal the money is paid upfront on a monthly or quarterly basis. And that while the existing system is a reimbursable system where the Federal Government is reimbursing after bills have been paid. In my understanding we can continue to reimburse States under Medicaid for several years. As bills slowly come in from providers, States have varying patterns for filing for final settlement from the Federal Government on the Federal share of costs.

I wonder how you will coordinate, particularly if it is changing from a reimbursable system to a block grant, the costs over a 2- or 3-year transition period where we are really paying both the block grant money and still continuing to reimburse for their old reimbursable system?

Ms. O'NEILL. I really cannot answer that question. I do not know the details of a transition or how it would be arranged. There is no final plan yet for Medicaid; there is no legislation to point to that would specify the details. So I cannot answer that question.

Mr. SABO. So you are scoring the administration program or the majority's proposal, those are the kinds of things which you cannot score?

Ms. O'NEILL. When we came to score it, we would then be given the details of how——

Mr. SABO. But as we have scored things today to say you have in effect achieved balance and give you the interest rate bonus? That is assuming somehow those numbers will be achieved whether the actual legislation gets there.

Let me ask also the question, how that relates to what kind of time lag, if you are aware of it, we have in Medicare? Because I know it exists in Medicaid and I assume it exists, in some form, in Medicare, too.

Ms. O'NEILL. I am not sure, Mr. Sabo, what you mean by a time lag.

Mr. SABO. Lag between when bills for services are rendered, from the time that either a provider or beneficiaries are reimbursed by Medicare for the cost of that procedure?

Ms. O'NEILL. Under CBO's current estimating system, that is a built-in component. If there was some change that we knew about, we would make a change in the estimate. But usually what we observe are the total spending patterns in different categories.

Mr. SABO. I am just curious. We are headed, clearly if everything goes well for the majority and assuming they can pass everything on schedule, we are probably not looking at a conference report until November. We are well into the fiscal year. And we are making assumptions for changes in programs like Medicaid for a full year when, in fact, any changes this year are likely to be very difficult to make adjustments to.

Ms. O'NEILL. The average payment lag in Medicare Part A, the hospital insurance portion, is around 2 months between the submission and the payment of beneficiary claims.

Mr. SABO. What about Part B?

Ms. O'NEILL. Between the time the costs are incurred and the payments are made, that lag is around 2 months. That is, it is the average lag for both.

Mr. SABO. OK.

Chairman KASICH. We have Dr. Rivlin coming in soon and I know that I talked too much today. So, we will try to take whoever really feels compelled and whoever is not compelled to ask here, we will put you up at the front of the order for Dr. Rivlin.

Congressman Hobson.

Mr. HOBSON. With that admonishment, I will ask only one quick question I hope. When you look at the two proposals, the President's latest proposal and you look at our proposals, what kind of differences in detailing do you have between the two proposals?

Do you have detail that you can look at from our proposal versus their proposal, where you can go back and forth; or is one limited and the other one not limited?

Ms. O'NEILL. With respect to the budget resolution, we were presented with illustrative paths and sometimes more than one illustrative path indicating how it would be possible to get to a balanced budget.

I will come to the administration's estimates in a minute. With respect to our role in the congressional budget process, we are going to be the agency that will certify whether the budget actually adds up—whether a balanced budget is actually attained and whether we believe what the committees have passed is accurate.

When it came to estimating the President's budget, not only were we not privy to the details but we also have no role in guaranteeing that those savings would actually be achieved. We have no say at all over those estimates. And that is an important difference that explains why we were unwilling to ascribe even a small fiscal dividend to the plan and to incorporate that into our estimates of the President's numbers.

Another point is that we accepted in its entirety the administration's scoring of the savings from its policies. As I pointed out in my remarks, the President's policies include a number of new programs as well as proposed reductions. Without costing those out,

we really cannot, with very much confidence, say for sure what those savings would be. So we are really in a different position when it comes to estimates of the President's plan.

With respect to at least one account, student loans, more detail has been presented recently, but we know that we would score the policy proposal to convert those programs into direct student loans differently than the administration has. The President's budget claims an expenditure saving—savings in outlays—from moving to direct student loans. We would not score it that way because we use a different principle, as I think you know, for that account.

So we are not really certain about the estimates that we have made of the President's budgetary proposals. We also feel that it is frequently the case that when CBO reestimates the President's budget, we find fewer savings than have been claimed or, in the case of new programs, higher costs.

Mr. HOBSON. So what you are saying is the President comes out and just puts out numbers, and you do not get any detail to back them up——

Ms. O'NEILL. We have given the administration the benefit of the doubt and used the savings that OMB estimated in doing our calculations. We used our baseline but their estimated savings.

Mr. HOBSON. But you do not know how they got there?

Ms. O'NEILL. No, because we do not know the details of the policies.

Mr. HOBSON. So that is why you do not give a lot of credibility?

Ms. O'NEILL. Actually, the President's budget sketches out the new proposed spending more than it sketches out the mechanisms for reducing expenditures.

Mr. HOBSON. So it would not be unreasonable to have some suspicions about whether these numbers are more than a hope and a prayer and maybe we are going to see another one in a couple of months, playing around with it again?

Ms. O'NEILL. Well, we have literally accepted them.

Mr. HOBSON. You are very kind.

Thank you, Doctor.

Chairman KASICH. Can we get you to do that for us? [Laughter.]

Mr. Stenholm.

Mr. STENHOLM. Thank you, Mr. Chairman.

As we all understand today is beat up on the President day. I can understand that, and appreciate that. As I did when President Clinton announced his revised budget, I commend him for embracing the commitment to a balanced budget in a time certain.

We all need to be working from the same baseline. The President's assumptions are different from CBO's, but they are not unreasonable as Dr. O'Neill has stated in her testimony.

Still, Congress works from CBO numbers and we should and must continue to do so. That means the President's budget needs some adjustments to reach balance. Needless to say, the President's revised budget was not exactly what I have or did put together, but there was at least as much of his budget as there was in the budget that passed that I liked. If you will notice the CBO's revised numbers on the President's reductions in Medicare growth, his numbers are virtually identical to those in the budget which Bill Orton, Glenn Browder, and I prepared.

And I would make one observation. In our budget, based on CBO scoring, it required $164 billion to make Medicare solvent according to all of the information we had. We put in reductions in rate of increase of $173 billion. My question today is, why do you, in your budget, need $270 billion? What is the other $109 billion for? Obviously to pay for a tax cut.

Here I say select carefully your words today. It was fun watching the television clip today. It is going to be equally interesting watching the television clip of the comments that were made and the charts and all today when CBO is asked to score honestly the reconciliation bill, which will be developed, hopefully, in a bipartisan way. The hole is getting deeper.

Now, everything must go right to meet the numbers in your budget. I passed out three charts for each of you to look at, and Dr. O'Neill, I am going to ask a question of you. Let me use, as an example, one other possible problem—the bonus for reaching a balanced budget which CBO scored earlier in the year.

CBO projected lower interest costs and increased revenues to the Federal Government from lower interest rates and higher national income. CBO's analysis was dependent on the financial markets finding the deficit reduction package credible. And CBO laid out an illustrative, smooth path to balance, Chart No. 1. I have distributed a bar chart showing CBO's illustrated path.

Secondly, I have distributed a chart showing the deficit reduction path which our substitute budget laid out. As you will see, the paths are nearly identical or, in most years, our reductions are actually a little greater than CBO's.

Thirdly, I have distributed a chart which is an estimate of the deficit reduction projected under the congressionally approved conference agreement. Let me say, from the outset, that I had to make an estimate because the deficit numbers included in the conference report did not show the impact on the deficit of the tax cut. My estimate assumed the enactment of a scaled-down version of the House-passed tax bill which does not include neutral cost recovery and reduces the cost of all other tax cuts by 30 percent in each year.

Again, the size of the tax cut in each year can only be estimated because the budget resolution does not specify the amount of the tax cut in each year. The tax writing committees will determine the magnitude of the tax cut each year, but the total tax cut may not exceed $245 billion over 7 years or $50 billion in 2002. As you can see, this deficit reduction glide path varies significantly from CBO's path.

My question to you, Director O'Neill, is what kind of bonus you would score from this third glide path, if that turns out to be accurate in our estimating? As you know, the conference agreement does not give you any choice, you are mandated to score a full bonus. But were a glide path to follow the third line, would you feel that it would deserve a full $170-billion bonus over 7 years?

Ms. O'NEILL. Figure 1 in my prepared testimony shows the CBO baseline, the President's July budget as estimated by CBO, and the conference budget resolution.

As you can see, the important point is that the difference between the CBO baseline and the President's July budget estimate

is very small in the first few years. It widens over time, but it is certainly much smaller than the difference between the baseline and the conference budget resolution without the tax cut or the fiscal dividend. By 2002, the big point is that the conference budget resolution may not follow the illustrative path literally, but our models cannot take account of small differences like that.

The path shown by the conference budget resolution, without the tax cut or the fiscal dividend, does, in fact, show balance by 2002, and it does so relatively smoothly. It diverges from the baseline significantly every single year. That is not the case with the President's July budget.

Now, I cannot speak to——

Mr. STENHOLM. I was just asking you to look at it if your——

Ms. O'NEILL [continuing]. I do not know how these numbers were calculated, but I would be happy to——

Mr. STENHOLM. I said these were estimates. And I am saying that if it should turn out that the third page of charts turn out to be accurate, could you score a full $170-billion bonus? If it turns out that instead of the deficit going down it goes up for the first 2 years and then starts down to balance, could you score the same bonus for deficit reduction that you scored originally, and that we tried to conform to in the budget, that we put forward as an alternative? That is my question.

Ms. O'NEILL. It depends on how aberrational it was. If it jumped above the baseline, obviously we could not. Mr. Stenholm, your proposal appears to be fairly close to the conference budget resolution, and it would probably be scored the same way. In other words, it would be credited with the same fiscal dividend because the deficit is essentially the same. It would only be in the case of wide divergences that we would score it differently, but that does not appear to be the case.

Mr. STENHOLM. Thank you.

Chairman KASICH. Is there anybody else who has questions for our witness on this side?

Mr. Smith, you are recognized, and Mr. Horton and then we can get to Dr. Rivlin.

Mr. SMITH OF TEXAS. Dr. O'Neill, we saw a few minutes ago on the tape that President Clinton said, on a nationwide address in 1993, that he was going to rely upon the CBO projections because he, "wanted to shoot straight with the American people."

Have there been any changes in policy at CBO that would justify President Clinton's change of position? Is CBO less reliable this year than a year or two ago?

Ms. O'NEILL. I certainly hope not. It is essentially the same group of people. I am different from Bob Reischauer, but in many ways—actually in terms of our schooling—we are almost identical. We went to the same university.

Mr. SMITH OF TEXAS. So with no change of policies, there is no substantive reason why there would have been a change of heart on the part of the administration, that you know of?

Ms. O'NEILL. No, not in terms of CBO. But of course the President has a perfect right to use whatever estimates he pleases.

Mr. SMITH OF TEXAS. I understand that.

Dr. O'Neill, let me ask another question and that is that during the Presidential campaign of 1992, candidate Clinton said he had a plan to balance the budget in 5 years. After the election he said he saw no need to balance the budget.

Then on a radio talk show he said he could balance the budget in 7 years. Then he submitted a budget that never balanced the budget. Then he said he had a plan to balance the budget in 10 years. Then he said he had a plan that would balance the budget in 9 years.

Should we believe what he said first, what he said last, none of the above? Which President Clinton statement do you think we ought to believe?

Ms. O'NEILL. I think that you have to take each plan at its——

Mr. SMITH OF TEXAS. OK, let us do that. Has any plan submitted by the President, under your projections, balanced the budget?

Ms. O'NEILL. CBO did a reestimate of the President's February budget which did not claim to balance the budget and indeed did not achieve balance. We have now done this recent reestimate, and, as I have said, the President's July proposal does not balance the budget, according to our estimates.

Mr. SMITH OF TEXAS. Right.

It seems to me the President does not want to balance the budget. He may want to tilt the country. I think that is the way we are trying to get to the balanced budget after all these different projections and all the different promises that were made. But just to put it on the record what, under the current, most recent President Clinton plan, what is the deficit when, the year he says he would balance the budget, under your projections?

Ms. O'NEILL. It is $200 billion.

Mr. SMITH OF TEXAS. President Clinton implied in 1993 that he would use CBO economic assumptions, according to one administration official, to avoid manipulation of economic assumptions.

So we have this statement that he was going to use CBO assumptions to avoid manipulation of economic assumptions, but is that not just what is being done when there is no longer reliance upon CBO scoring?

Ms. O'NEILL. I have no reason to believe that any particular manipulation has occurred. It is not really for me to evaluate that. I was not privy to the development of the figures.

Mr. SMITH OF TEXAS. That is a tough question. I did not really expect you to answer that. But let me ask you a question I think you can answer.

That is if you look at the effort to balance the budget in 7 years versus 10 years, is it not more difficult to balance a budget in 10 years because on the outlying years the deficit starts going up and, therefore, it is going to be more difficult to balance the budget the longer we wait rather than trying to balance it in 7 years?

Ms. O'NEILL. The more you push the problem into the future, the more you decrease the likelihood that balance will occur, especially if the savings are backloaded so that they occur largely in the outyears rather than in the near term.

Mr. SMITH OF TEXAS. So it would be easier from the practical point of view to balance it in 7 years than 10 years?

Ms. O'NEILL. It is not a question of that. It is tougher to balance it, of course, in a short amount of time. You have to face up to doing many unpleasant things. In terms of assessing the chances that balance will be achieved, that seems to me to be a political question, which I should perhaps not answer.

Mr. SMITH OF TEXAS. No, no, it is not a political question. I thought this was an economic question.

Ms. O'NEILL. No. It is rather, if the day of attaining balance is pushed farther away, will there be the same discipline present for actually getting there—because it is future Congresses that are going to be determining a lot of the spending that would go on.

Mr. SMITH OF TEXAS. Right.

My question really went to the fact that under the CBO projections, once you got past 7 years, does not the deficit start to go up?

Ms. O'NEILL. The deficit goes up.

Mr. SMITH OF TEXAS. OK, and my point there is, therefore, it is going to be, shall we say, less difficult, we will have to make fewer reductions in spending if you balance it in 7 years than in the 10 years?

Ms. O'NEILL. Particularly if it is backloaded. If big cuts were made within the next few years, it would be a different story because you would then be speeding along.

Mr. SMITH OF TEXAS. Right, OK, you have answered the question. Thank you, Dr. O'Neill.

Chairman KASICH. Mr. Orton.

Mr. ORTON. Thank you, Mr. Chairman. And thank you, Dr. O'Neill. I am over here on your right, way over here on the side.

I am one who agrees with the chairman about the importance of scoring and accuracy in scoring and the need to use the same numbers. I am concerned that in the House-passed version of the budget, we included a $354-billion tax cut. In the conference version of the budget, conference agreement had a $245-billion tax cut. That is a $109-billion difference.

Chairman Archer, chairman of Ways and Means, indicated after passage of the conference agreement that he felt the Ways and Means Committee should not have to rewrite the tax bill as part of the reconciliation. He suggested a procedural maneuver which would simply reduce the tax cuts by 31 percent, the difference between the $245 billion and $354 billion.

And he indicated in a speech to the National Association of Manufacturers that he believed that CBO would score it "in compliance with the budget agreement."

I have a concern, especially since the Tax Code is very complex, with a variety of different limitations, eligibility requirements, et cetera, et cetera. Can CBO score such a procedural change of just the reduction of 31 percent of these items?

Does CBO and your estimators not have to have specific statutory language on a title-by-title, section-by-section basis in order to give us scoring on the tax cut?

And I have a followup, so if you could be very brief.

Ms. O'NEILL. We do not do the scoring of the tax cut. That is done by the Joint Committee on Taxation.

Mr. ORTON. Right and I do not have Ken Kies sitting here, although I would like to.

Ms. O'NEILL. This year, our role is in the certification process. And that would be a matter of examining what the Joint Committee on Taxation has done.

Mr. ORTON. OK, well, let me just proceed.

There are at least 18 different tax cuts in the conference agreement. Of those, you can imagine how you could score a 31-percent reduction of the $500-per-child tax credit. That is simple. You take 31 percent, you lower the credit from $500 down to $345.

But there are other provisions in the conference agreement that are not so easy. For example, we are repealing in that bill the corporate alternative minimum tax. How do you repeal 69 percent of the corporate alternative minimum tax? Do you leave 31 percent of the corporate alternative minimum tax in place?

There are also technical adjustments which have revenue impacts, gains or losses. How do you have 31 percent of the technical correction not be made and you only make 69 percent of the technical correction?

What about the depreciation cutbacks? If, in fact, we are going to simply say the depreciation deductions are going to be reduced by 31 percent, would that not, in some instances, have a lower depreciation deduction after the 31-percent reduction of the new provisions than you have under the current law?

What about the alternative minimum tax for individuals? Between now and 2000, some of those provisions are changed and repealed. As of 2000 the entire individual alternative minimum tax is repealed. How would you calculate that if you were an individual? Would you first calculate your regular tax and then calculate your alternative minimum tax, and pay 31 percent of the difference because we have now reduced the tax benefit of eliminating the alternative minimum tax by 31 percent?

And what do you do with the tax preference items? Are you going to reduce the tax preference items pro rata, 31 percent? And how do you then take care of the carry-over of those preference items?

For those of us burdened with some knowledge of the Internal Revenue Code it seems impossible for CBO or Joint Tax to score or for CBO to certify that we are in compliance with the Budget Act and the budget agreement and in compliance with the conference agreement if we do not rewrite the tax provisions in the reconciliation bill item-by-item, section-by-section, title-by-title.

If you disagree with that, I would like to hear how you would plan on scoring and certifying it with just a 31-percent difference. And if you agree with that, then my next question would be for the chairman. He has indicated that if the committees that are responsible for reconciliation do not report back to this committee legislation which meets the conference agreement, this committee will write that legislation.

And I am wondering if I should get ready to start writing a tax bill, Mr. Chairman?

Chairman KASICH. I suggest, when you go home over the break, that you use the next 30 days working on that tax bill. We might be able to use it when we come back.

Mr. ORTON. I would like to give Dr. O'Neill an opportunity to respond to that whole list of questions.

Ms. O'NEILL. I do not think anybody could argue with you about the difficulty of doing such a job. All I can say is that we will certify a tax cut of $245 billion only if there are specific changes in the legislation that seem to meet the criteria for certification.

Chairman KASICH. That was an awfully short—Nick, I want to go—no, I just——

Mr. SMITH OF MICHIGAN. Mr. Chairman, allow me 30 seconds.

Chairman KASICH. Well, let us have a vote. Everybody in favor of giving him 30 seconds, raise your hand. [A show of hands.]

You won it because you are such a fine gentleman. Yes, sir, 30 seconds.

Mr. SMITH OF MICHIGAN. Mr. Chairman, we are here today to decide whose figures we should use. On the tax issue, responding to Mr. Orton, it is interesting to look at this table. We look at the tax reduction that we have proposed for those earning between $100,000 and $200,000, Treasury says it is an 8.6 percent reduction and Joint Tax Committee says it is a 3.7 percent tax cut.

Likewise, for individuals making $200,000 or more, Treasury says it is a 9.9 percent reduction, and Joint Tax says it is 2.9 percent. It seems important that both in tax issues and in budget issues we go with the same set of figures.

Chairman KASICH. Thank you, Mr. Smith.

I now understand Les Aspin's impatience with me over all the years. [Laughter.]

Dr. O'Neill, I want to thank you for being here today. Thank you for your service, as Mr. Sabo said, we were commenting up here, you have really done a fine job. You have everybody frustrated. That must mean you are doing pretty well. So, thank you for being with us.

Ms. O'NEILL. That is usually the rule, if everybody is mad at you, then——

Chairman KASICH. Yes, yes.

Now, we will go to Dr. Rivlin. June, if you want to stay, you can hang in here if you can, unless you are off-estimating. If you would hang in here with us, that would be great.

Alice, how long can you be with us?

Ms. RIVLIN. As long as you need me, Mr. Chairman.

Chairman KASICH. OK. That is not a good answer for you or for me. [Laughter.]

Well, we are going to do this. We are going to kind of do this in reverse. Could I get some order in the room? OK. Dr. Rivlin, the purpose of the hearing today, obviously, is to try to figure out whether we should use, how we are basically scored under the CBO scoring mechanism as compared to OMB and what is the result?

Let us get the first chart up there, if we could. The situation is that using the OMB scoring we have the President finally being able to balance the budget in 9 years, but you have the Republican plan balancing the budget in 5 years, with $100 billion surplus.

If we use your assumptions and plug our plan in, we can do it in 5 and we have $100 billion surplus in 7 years. Put the second chart up. That if, in fact, we used the CBO scoring, as you know and I know the argument is you have all these slight differences, but they are not slight. They are huge to the tune of, as you can

see using CBO scoring, $200 billion deficits under the Clinton plan. And I keep hearing about how you have this balanced budget plan.

As you can see what happens with our plan it does, in fact, balance by the year 2002. And my frustration is this, when we met with you and Leon it was indicated that you folks had a serious plan. I thought a serious plan meant something that withstood the rigors of CBO. Why CBO? We will go one more time to the video tape. You have seen George Michael, Alice, he always says let us go to the video tape. We are going to go to the video tape and show you why we are using CBO. [Video tape is played.]

To me one of the critical statements in that tape is, "I do not want to estimate myself out of this problem." And when you take the interest savings of $50 billion and the economic assumptions, the slower trend lines on mandatory spending, that is precisely what you are doing.

I have to tell you, doctor, I did not intend to have this hearing. The day the President's plan came out, that week when we all had a whack at it and we held our fire, there were some people that wanted to have a hearing, and I said I do not want to have one, because that gets politics in the way.

And Robert Rubin appeared on "Meet the Press" together where we talked, both off-camera and on-camera, about this problem. But we constantly hear this talk about the fact that the President has a balanced budget. And let me tell you, what we are doing getting into this fight about whether he has a balanced budget or not and I can do it in 9 years or whether, it is going to create a crisis of confidence with the American people on the fact that we cannot use one set of books.

I have got to tell you that I am very concerned and I am not kidding you about this. This is not rhetorical. As you know, and Martin pointed out this morning—I got my people all mad at me because of some statements I made about Medicare—I do not want to see the government close down.

Ms. RIVLIN. Neither do we, Mr. Chairman.

Chairman KASICH. But we cannot, at the end of the day, put a deal together if we are not dealing from the same set of books. You saw the Republicans laugh when the President said, we will use CBO and he chastised us and said, this is why we have to do it.

And, you know what, I had that fight inside this committee about whether we should use all the CBO numbers. When we were doing our budget we fought in here about whether our economic assumptions could vary from the economic assumptions of CBO. Mr. Parker was in those meetings. All the Republicans were in those meetings. We had a knock-down, drag-out about whether our numbers should be CBO numbers, and we drew the conclusion that what the President said ought to be adhered to.

And we are not happy with a lot of CBO stuff up here, on our side of the aisle, but what is fair is fair. And I would say, Doctor, that if we are going to get this thing resolved we have got to start leveling with each other and we have got to start leveling with the public as well.

And I finally felt as though we had to have the hearing because I do not want to go all of August—it is really kind of a fair warning—from the standpoint of that we just cannot accept the fact that

the President runs around saying that he has a balanced budget plan when he does not. The head of the Congressional Budget Office stated before you got here, there is no balanced budget plan, there has never been a balanced budget plan presented by the White House. And we have got to just get down to talking about the same set of numbers with the same set of assumptions. No rosy scenario.

Did Republicans use OMB in the past, and come up short? Yes, they did. And this is an effort to correct it. Now, we are in charge and we are having to strain under the yoke of CBO but that is the referee. And if you do not have a referee you never know when you get in the end zone and when you do not. The yard stick is 10 yards long. It is not 9 yards long, or 8 yards long or 11 yards long. That is why they measure with the same stick all the time.

And we are not doing it now, and I want to get this fixed, Dr. Rivlin. I want to get this fixed because I am telling you this jeopardizes our ability to get the job done in the final analysis.

And I know you want to get the job done, as well, I know you do. But we cannot get it done until we stop playing games with one another. We are not playing a game, frankly. We used the CBO numbers and it was not fun and it was not easy, but we did it. And we did it. This committee did it, taking a lot of grief from our own colleagues in an effort to try to meet the goal, and we did it.

So we want to hear a little bit about how we can reach agreement in a consensus here today. And can we go back to CBO scoring? And if you do not want to, are you going to give us $100 billion surplus? Is that what you are going to score our plan as, $100 billion to the plus?

That is what we really need to know.

Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

Alice, welcome to the committee again.

Ms. RIVLIN. Oh, I feel real welcome, Mr. Sabo.

[Laughter.]

Mr. SABO. I expect and I know that you will have good responses to the chairman.

I, frankly, have looked at the estimates and they are a reminder, I think, of what all of us have to keep in mind. That is that we speak as if we have some scientific formula for what the future is going to hold. The reality is that the future will be something different than I expect whomever is projecting, whether it be CBO or OMB or outside forecasters. As I look, your economic growth numbers are somewhat higher than CBO. Your interest rate assumptions are somewhat higher, which costs us money.

Eventually one has to have common agreement between the Congress and the administration on those assumptions, but the two are fairly similar in the range that they are in. But it is a reminder that over a long term the reality is that slight variations in what actually happens in the economy in terms of growth, or slight variations in what happens with interest rates are going to have an immense impact on what happens to the Federal budget over a period of time.

And, as a matter of fact, those things which we do not control directly have great impact on what happens with deficits over an

extended period of time. They may have greater impact than the decisions we make on specific spending decisions.

So it is a reminder that we need a little humility as we try to look to the future, wherever we come from. But I look forward to your testimony. I was one, on our side, who thought the President made a significant contribution by coming with this plan. There are things that I agree with. There are things I disagree with in that plan. I happen to be one of those people who think we should be about reducing the deficit, not passing tax cuts, whether it is the very large Republican plan or the more modest targeted plan of the President. But I thought his proposal was a significant contribution to moving us forward this year. And so I congratulate him on presenting that plan and you being here to testify before us today. And welcome, we look forward to hearing your comments.

Chairman KASICH. Martin, I would like to just make one other comment. I think you touched me with a point you made that is an important one and that is the issue of having some humility when you stick your plans on the table because the first time—as it says in the Bible—you are looking at the spec in the other guy's eye and you have got to log in yours.

But you know, my concern about this is from the standpoint, you know it as well as I do, that I am the one that is, in the final analysis, going to have my neck on the chopping block out there, and my colleagues are the ones who are going to push me in the room to end up dealing with her. All I am saying is that I want to have confidence that the person I am sitting across the table from is going to be square, that is all. And she is under a lot of pressures down there, they all are. But the message today is we have got, in the final analysis, to begin to level with one another.

But in terms of trying to stick somebody or whether, I think you make a fair point. This is not an easy task. You have got to be careful of the criticism you use, but I think this one is a very legitimate one.

Yes, sir.

Mr. SABO. Mr. Chairman, just so that we calm the rhetoric a little bit, too. I just asked staff to get me what we thought were really rosy scenarios. And here we are talking about one-tenth or two-tenths of a percent variation which clearly has a significant impact in the long term.

But let me just give you what some prior history was. In 1981–1984, that period of time, the CBO forecast was 2.6 percent growth and the administration was 3.7. That was 1.1 percent difference. From 1982-to-1985 it was 2.8 versus 3.8 percent. And from 1985-to-1988 it was 3.3 to 4 percent. From 1986-to-1989 it was 3.3 to 3.8 percent.

Now, we were talking, at one point, of variations of up to 1 percent between CBO and OMB. And those were rosy scenarios. What the differences are here, today, are very, very modest in comparison to differences that occurred during the 1980's and 1990's.

But it is a reminder I would suggest again. The reality is going to be something different than what either CBO or OMB is projecting, and we need to keep in mind the humility to know that in the long term that reality is going to have an immense impact.

Chairman KASICH. I do not disagree. First of all, I am not going to defend—when George Bush was putting his budgets together I was putting mine out.

Mr. SABO. I know.

Chairman KASICH. I did not agree with his stuff. I mean 1990 we split our party over what George Bush wanted to do on economic matters. But Bill Clinton is the one who laid the marker down. And remember what June just said here, it is a difference on the economic stuff and the economic stuff is a big difference. We would have loved to have scooped up another $40 or $50 billion because we discussed it in here when we were putting the budget together. But it is the interest savings, it is the growth rates of Medicare and Medicaid, it is a whole litany of things that all add up to a scenario and we have got to stop it.

Do you want me to say, did Republicans have rosy scenarios? Yes. Yes, we did. And I give Clinton credit for putting the heat on us on OMB. This is a new day. I mean we put together the plan. I mean we put our guts on the line here on this plan. But let us let Dr. Rivlin go ahead and make her presentation and see where we are.

Dr. Rivlin.

STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Ms. RIVLIN. Thank you, Mr. Chairman.

Let me say a word about our "Mid-Session Review" and a word about the numbers, and then we can talk further about it.

I think the important thing is that the administration and Congress now agree on achieving the same goal. We agree that we ought to reach balance in a finite period. We are now having a debate about how quickly we should get there and how we should do it. But we have made a lot of progress. I have not sat in this seat before, and I have been here many times, at a time in which Congress and the President agreed upon the need to balance the budget. We need to do it over a period of several years. It cannot be done instantly. While we may have different views about how to reach balance, we all agree that we need to get there.

The "Mid-Session Review" we released earlier this week is unusual. Normally, OMB reestimates the President's February budget proposals in July so that final decisions can be made in light of the most up-to-date estimates. But this year we are doing something different because the administration produced its budget in two stages.

The February budget concentrated on reducing and restructuring discretionary spending. It proposed reducing discretionary spending by reinventing major agencies: Housing and Urban Development, Transportation, and Energy, among others. And it used the savings from those reinvention efforts partly to pay for a tax cut for average families, and partly to reduce the deficit.

We proposed a tax cut, including a tax credit for low- and moderate-income families with young children; tax deductions for education and training; and a broadening of the individual retirement account to encourage savings.

The discretionary spending proposals shifted spending away from lower priorities in order to increase investment in education, training, and science and technology programs aimed at raising the productivity and skills, and ultimately wages, of the American work force. The February budget was designed to raise the standard of living of average families, both now and in the future.

But the February budget did not make major changes in entitlements. Thus, it did not get to balance. However, the administration made clear that it would be necessary to address entitlements in order to reduce the deficit further and said that we would come forth with new proposals, especially in the areas of health care and welfare reform.

In June, we fulfilled that promise and sent Congress a new 10-year plan for balancing the budget. The new plan extended both the cuts in discretionary spending and the tax cuts that were in our February budget. It also continued the President's emphasis on a leaner Federal Government, one that is more focused on investments in the future.

The 10-year plan also revisited health care and welfare reform, sketching ways of reducing the rate of growth in these entitlements while maintaining vital coverage for the elderly and the vulnerable and moving welfare recipients into jobs.

The 10-year plan for balancing the budget is the subject of our "Mid-Session Review." The review contains two pieces of good news. One is that our latest estimate for the deficit in fiscal 1995, which ends in less than 2 months, is $160 billion. While that is still a large number, it represents the enormous progress that has been made since the beginning of the Clinton administration. The deficit in fiscal 1992 was $290 billion, and everyone projected it heading upward through $300 billion.

So for this fiscal year, the deficit will be approximately $160 billion, 45 percent lower than the deficit of 3 years ago. It is also far lower than the Clinton administration's early 1993 estimate for the fiscal 1995 deficit. At that time, we thought that our plan would bring the fiscal 1995 deficit down to $242 billion. We are now reporting that we are at $160 billion.

This administration has a strong record of delivering on its deficit reduction promises and, indeed, exceeding them. The chart we have here shows what has happened to the deficit over this historical period. We are not talking about projections now.

The President's economic plan has worked directly to cut spending and increase revenues. It has also worked indirectly to improve the economy and, hence, lower the deficit further. It has laid the foundation for the deficit reduction plans we are now considering. I do not hear any of the people who predicted economic disaster if we enacted the President's plan proposing to repeal it now. If we had not done what we did in 1993, we would be in much worse shape now.

The second piece of good news is that our reestimates confirm that the policies announced in the President's plan to balance the budget would result in a small surplus by the year 2005. Indeed, we now estimate that it would be possible to balance the budget by 2004.

We believe the President's policies are moderate and sensible, and that they represent the common ground on which most Americans stand. The majority in Congress wants to finance a huge tax cut whose benefits flow mostly to people who do not need them and they want to reach balance more quickly. Hence, they are proposing extreme measures that slash Medicaid and Medicare and cut deeply into programs that we need to grow the economy and protect the environment.

I think there is a disconnect here. The objective of balancing the budget is to have a higher standard of living in the future. But the Republican plans cut into skill training, student loans, and science and technology—the very programs needed to contribute to that higher standard of living in the future.

We believe the budget can be balanced without these extreme measures. We are prepared to work with Congress to produce a balanced budget plan that will serve Americans well. We believe it is important to have an orderly debate over alternative ways to balance the budget and allow for time to air out the differences and craft a compromise that can command bipartisan support. We should avoid making these big decisions about the future of the country in a crisis atmosphere, amid threats to shut down the government and cut off vital services that people need.

The administration is concerned that the congressional schedule is designed to produce a crisis. The September 22 date for committee reports on reconciliation to be given to this committee is already too late to make reasonable decisions by October 1.

We have urged Congress to either accelerate its schedule so that the debate can proceed in a noncrisis atmosphere, or allow for more time by passing a clean continuing resolution and, if necessary, a debt limit extension.

Finally, let me say a word about numbers. I was in the gallery that night in 1993 when the President made that speech and I was very pleased, because I am very proud of CBO. That speech has played a role in the credibility that CBO has attained, and I was delighted to hear the President make that statement.

The statement came against a background, in the 1980's, of very rosy scenarios coming out of the Office of Management and Budget, and more reasonable, more conservative projections coming out of CBO.

The differences between CBO and OMB have narrowed in recent years and, at the moment, I think anyone would say that the differences between OMB and CBO economic assumptions are minor and well within the range of reasonable opinion. On economic growth, for instance, which drives many of the long-run revenue projections and other things, OMB assumes the economy will grow in the long run at about 2.5 percent, after correcting for inflation, and assumes the growth rate will then ease down to 2.4 percent. The Congressional Budget Office assumes a growth rate of 2.3 percent, moving up to 2.4 if the balanced budget plan passes.

Neither of these are rosy scenarios. For the most part, the private forecasting community projects economic growth to be around 2.6 percent, some go as high as 2.7 percent. Nobody knows exactly what is right, but the differences are extremely small. They are not of the order of magnitude of the differences that existed between

CBO and OMB in the 1980's. Chart No. 5 in my prepared testimony shows that there were huge differences between the CBO and OMB growth rate assumptions, especially in the early 1980's, but they have narrowed considerably and are, for the outyears we are talking about, almost invisible on the chart.

The differences between estimates of medical care inflation are also small. Those OMB and CBO differences are important, and over a long period they drive the numbers, but the differences are not very large. They can be worked out.

Any negotiation that occurs between the administration and Congress will have to start from a common baseline. It would not be very hard to agree on such a baseline. We are prepared to work with CBO at the technical level and arrive at a set of numbers we can all agree upon. But I do not think this is very important, Mr. Chairman. These technical disputes should not be allowed to obscure the more fundamental policy debate that the American people deserve.

We have two different budget proposals before Congress and the American people. Both are aimed at the same goal: reaching balance in a reasonable period of time. We need to talk about the policies in those budgets: How do the priorities differ? What would the cuts do? Who would suffer? And, is it worth it?

Finger pointing about numbers obscures that policy debate and I think it makes it impossible for the public, who ought to understand what is going on here, to comprehend anything more than people are just wrangling over numbers.

Thank you, Mr. Chairman.

[The prepared statement of Ms. Rivlin follows:]

PREPARED STATEMENT OF ALICE M. RIVLIN, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

Mr. Chairman, members of the committee, I am pleased to be here today to discuss the "Mid-Session Review of the 1996 Budget," which we released Monday. The mid-session confirms this administration's great progress in reducing the Federal deficit and in pursuing government's proper role to facilitate sustainable economic growth.

We project that the deficit for the current year, fiscal 1995, will be $160 billion—$130 billion, or 45 percent, below the record 1992 deficit of $290 billion that we inherited. We achieved this progress partly through the direct effects of the President's 1993 economic program, and partly through the salutary impact of that program on the economy itself.

Since the President took office, the economy has grown rapidly—leaving behind what had been a sluggish recovery to approach full utilization of its productive capacity. In the first half of this year, the economy negotiated the difficult transition from rapid recovery to sustainable expansion. Though this process had its inevitable ups and downs, the economic fundamentals—business investment, export growth, and productivity growth—remain solid.

As a result, the economic outlook in the "Mid-Session Review" is a favorable one—little changed from the assumptions in the President's 1996 Budget, released in February. The new assumptions reflect the greater-than-anticipated growth at the end of 1994, and the counterbalancing slower growth in the early part of this year. They also incorporate the lower interest rates that we now enjoy, and the reduction in interest rates that we anticipate will occur with enactment of the President's balanced budget plan.

With this transition from rapid recovery to sustainable expansion behind us, the economy continues to show stability and strength. One manifestation is the continued substantial decline in the deficit, giving us confidence that our long-run economic projections are sound and that our deficit forecast is realistic and attainable.

THE PRESIDENT'S ECONOMIC PROGRAM THUS FAR

All of this progress did not come easily—2 years ago, responsible observers universally viewed the Federal Government's long-term budget outlook as bleak. They foresaw growing deficits in the long run. With no relief in sight, the likely outcome was an explosion of deficits and debt.

By itself, this prospect was troubling enough. But its major implication was even more troubling for the long-run health of our economy, and for the key economic problem before us—the likelihood of continued sluggish growth in the living standards of average American families. With a large budget deficit draining our Nation's saving, the outlook for business investment was poor. Without strong investment, productivity would lag, dampening long-term economic growth and average wages.

Though eliminating the deficit benefits the economy in the long run, it requires actions that have both political and economic costs in the short run. In 1993, the President proposed and Congress passed a major deficit reduction plan. While freezing overall appropriations, the plan shifted priorities, putting more resources into programs that—like investments in the private sector—build our Nation's productive capacity in the future. These efforts give the private sector the prerequisites—highly skilled and trained workers, infrastructure, and basic scientific and technical knowledge—for increasing productivity and wages. Over 2 years, Congress has approved shifts of about $15 billion into these investments.

The benefits of the President's 1993 deficit reduction plan are already clear. The economy responded—far beyond our forecasts. Though some observers predicted job loss—even recession—as a result of the President's plan, the economy has grown more rapidly over a longer period than at any time in recent memory. Interest rates fell sharply, spurring an investment boom. With lower interest rates, households and businesses refinanced debt and shored up balance sheets. Rapid economic growth prompted a burst of job creation—more than 7 million so far, over 92 percent of them in the private sector, well ahead of schedule for the President's target of 8 million new jobs over 4 years (see Chart 1). At the same time, inflation hit bottom and stayed there. As a result, the deficit has fallen even more than we projected when the President submitted his 1993 program; in fact, over 7 years, we now estimate that the accumulated deficits will be more than $1 trillion lower than we originally projected (see Chart 2).

CHART 1.—JOBS

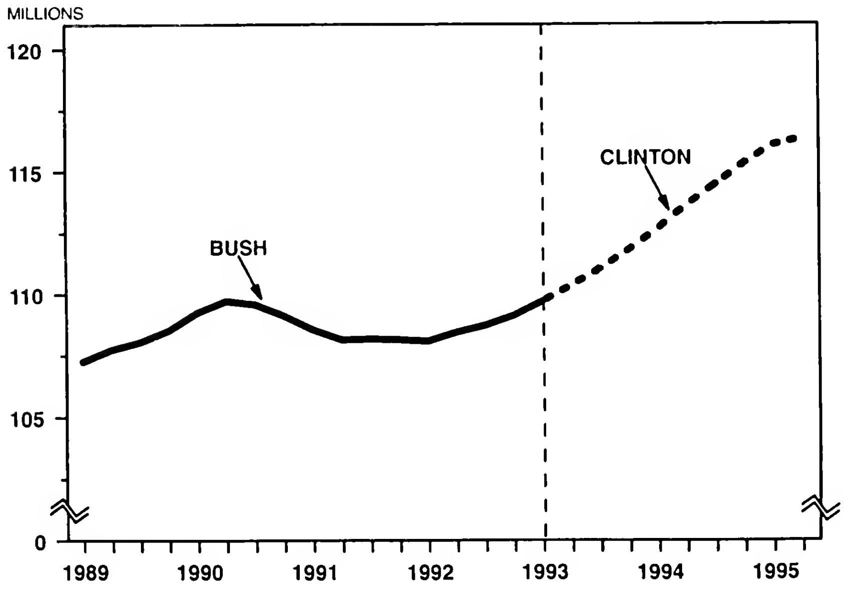
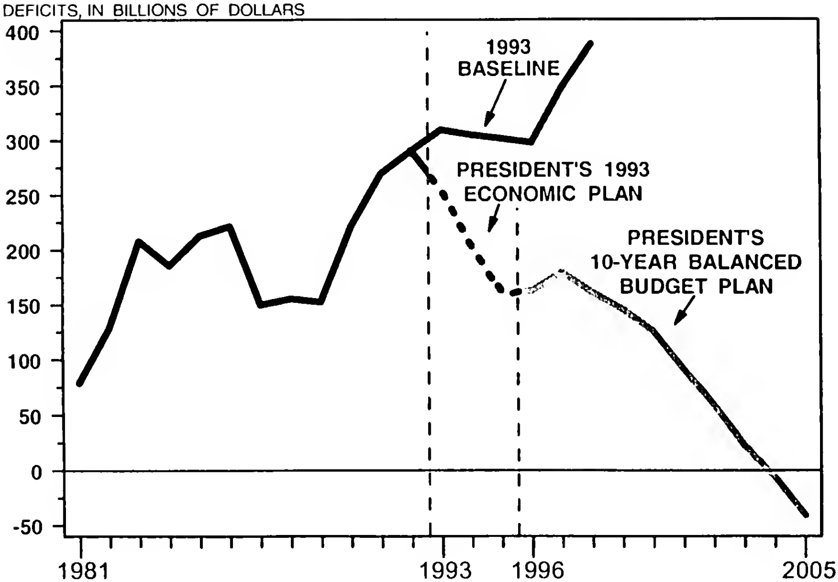


CHART 2.—BALANCING THE BUDGET: THE PRESIDENT'S ECONOMIC PLAN



In perhaps the best summary of the state of the economy today, Federal Reserve Chairman Alan Greenspan said that prospects for sustained, noninflationary growth are the best in a generation.

The President's 1993 plan is the base upon which we will build future policy. Without this plan, which no Member of Congress in either party proposes to repeal, no plan on the table today would have any chance of balancing the budget in the foreseeable future.

THE PRESIDENT'S BALANCED BUDGET PLAN

Our long-run deficit outlook is much improved, with the Nation carrying over $1 trillion less debt by the year 2000 than anticipated before the President's plan. With no change in policy, however, the deficit will start to rise again in several years, for the same reason that the President pinpointed from the first days of his administration: rising health care costs. That is why, in his State of the Union Message in January and his budget in February, he pledged to work with Congress to develop a new, more incremental approach to health care reform. The President viewed health reform and other savings in entitlements—including welfare reform—as the next major step to finally put the problem of budget deficits to rest.

The House and Senate have adopted a plan to balance the budget. As the administration said in June in issuing "The President's Economic Plan: A Balanced Budget that Puts People First," the Nation stands at an important moment in its history. For the first time in recent memory, the President and leaders in Congress agree that we must enact a plan to balance the budget. The President stands ready to work with Congress to achieve this important goal.

However, we have grave concerns about the means that Congress proposes. As the President has said, the congressional budget resolution is extreme; it abandons many of our shared goals and values—the common ground—that have made this country what it is.

The resolution seeks to reach balance by 2002, and to provide a huge tax cut whose benefits would flow disproportionately to people of considerable means who simply do not need it. The resolution then cuts spending deeply to reach balance.

Among the victims are Medicare and Medicaid. The Medicare cuts that the House specified—the Senate gave no hint of its substantive policy—would bear unfairly on the low- and moderate-income elderly, and could severely affect the quality of care. The resolution's Medicaid cuts reach far beyond levels that any reasonable policy can achieve. They would threaten the well-being of low-income Americans, including

the indigent elderly and disabled in long-term care. In addition, they would reduce coverage of children and risk sending those without paid access into hospital emergency rooms, further burdening the overall health system with costs of uncompensated care.

Another victim is education. As we all know, the fortunes of workers in a knowledge-based economy depend on education and training. Education is among our shared values; it is an important underpinning of the American dream. We surely should not try to balance the budget today at the expense of the skills and knowledge we will need to keep the budget in balance tomorrow. That strategy would defeat the whole purpose of balancing the budget: raising the standard of living for average Americans in the long run.

The Federal role in education is limited but important. The Federal Government takes responsibility for preschool education for the disadvantaged, some of the particularly expensive services needed in elementary and secondary education—such as special and compensatory education—and more broadly for the financing of higher education for the low- and moderate-income population.

Without this Federal role, children from low-income families would enter school less well prepared, and local school districts would face the costs of special programs. And in particular, low-income high school graduates—those without the benefit of a family background of higher education and the clear promise of lucrative job prospects after a college degree—could easily be deterred by the risk of an accumulation of interest-bearing debt while they attend college. That would not only waste scarce resources; it also would pull a rung from what should be a ladder of opportunity.

We must continue preparing our youth for full participation in our economy. Driven by its arbitrary target for budget balance and its ill-targeted tax cut, the congressional resolution would put our progress in education at unnecessary risk.

The President put forward his own balanced budget proposal, one that differs from the congressional resolution in two fundamental ways.

1. It does not choose a date for budget balance, then force the policy to meet the date; rather, it chooses policies first, then lets the date flow from them. We found policies that, according to our mid-session estimates, can reach balance in 9 years—with painful restraint, but not abdications of Federal responsibility in key areas like Medicare, Medicaid, and education.

2. It does not include a large tax cut for people who do not need it. Instead, it continues the more affordable tax cut proposed in the President's February budget, targeted particularly to the education and training needs of average Americans.

The spending cuts in the President's program come in four main areas.

1. The first is discretionary appropriations, where we continue the restraint in the President's fiscal year 1996 budget with savings that amount to $200 billion over 7 years, $460 billion over 10. These savings involve every area of discretionary spending other than a few priorities, for which the President targets Federal resources to have the greatest impact on future living standards and prospects for long-term growth.

These include education and training, where the President provides full protection for inflation; children; a small number of science and technology research priorities, including biomedical and behavioral research at the National Institutes of Health; crime fighting, with full funding of the Violent Crime Reduction Trust Fund; and environmental protection, with consolidation of the Clean Water and Safe Drinking Water State Revolving Funds. Other programs will feel the continued restraint of the Vice President's effort to reinvent government, which has already reduced Federal employment by 100,000 on the way to eliminating 272,900 full-time equivalents by the end of this decade.

Education and training are prominently featured in this budget plan. The President provides full inflation protection for National Service, the G.I. Bill for America's Workers training programs, and Goals 2000. He provides enough funds for Pell grants to keep up with inflation and serve the growing student population. We are emphasizing new and more efficient programs, not the more intrusive and bureaucratic initiatives of the past.

To date, Congress has begun implementing its resolution with respect to discretionary spending. The early results are most disappointing. For one thing, the Congress' priorities are counterproductive, especially with respect to education and training. Beyond that, Congress has apparently made a special effort to terminate or eviscerate the President's priorities—especially those that are most reformist, most stimulative of State and local initiative, and most in keeping with the common ground that both parties and the American people have shared for decades—such as National Service and Goals 2000. If Congress really believes in building oppor-

tunity, not bureaucracy, and in government close to the people, it should encourage these efforts, not smother them.

2. A second area for deficit reduction is health care. The President has prescribed measured policies to achieve savings in Medicare and Medicaid, accompanied by the first, serious steps toward health care reform. The President's proposed cuts in Medicare—less than half of those in the resolution—would bear solely on providers. According to the Health Care Financing Administration [HCFA] actuaries, whom congressional leaders have recently cited as authoritative, the President's cuts would extend the solvency of the Medicare Hospital Insurance Trust Fund by 3 years—to 2005. That would give us the time we need to engage in a studied, bipartisan process to put the trust fund on sound footing for the long run. Though they are much larger than ours, the Medicare cuts that Congress is discussing—to the extent we know anything about them—have about the same effect on Medicare trust fund solvency. Much of Congress' savings would come from beneficiaries, adding nothing to the Hospital Insurance Trust Fund.

In Medicaid, the President proposes $55 billion in cuts over 7 years, $105 billion over 10—less than a third of those in the resolution. As noted earlier, the cuts in the House resolution—the Senate was silent here as well—were particularly hard to justify in policy terms. The resulting loss of coverage for our low-income, elderly and disabled populations would most likely cause great hardship, and would eventually simply come back to haunt us in our hospital emergency rooms. Instead, the President proposes automatic waivers for States to pursue managed care and other service-delivery innovations, repeal of the Boren amendment, and per-person limits on the growth of payments.

The President believes that we should pursue Medicare and Medicaid savings only in connection with health care reform. The President's proposals for incremental health care reform complement the Medicare and Medicaid savings. They include elimination of the copayment for mammography, and establishment of a respite care benefit, under Medicare; a home- and community-based care grant program for the elderly and disabled; a subsidy for extension of insurance coverage for up to 6 months for workers who lose their jobs; expansion of the income tax deduction for health insurance premiums of the self-employed to 50 percent; voluntary pooling options for the self-employed in insurance plans available under the Federal Employees Health Benefits Program [FEHBP]; and various insurance and small-group reforms and consumer protections relating to portability and renewability of coverage.

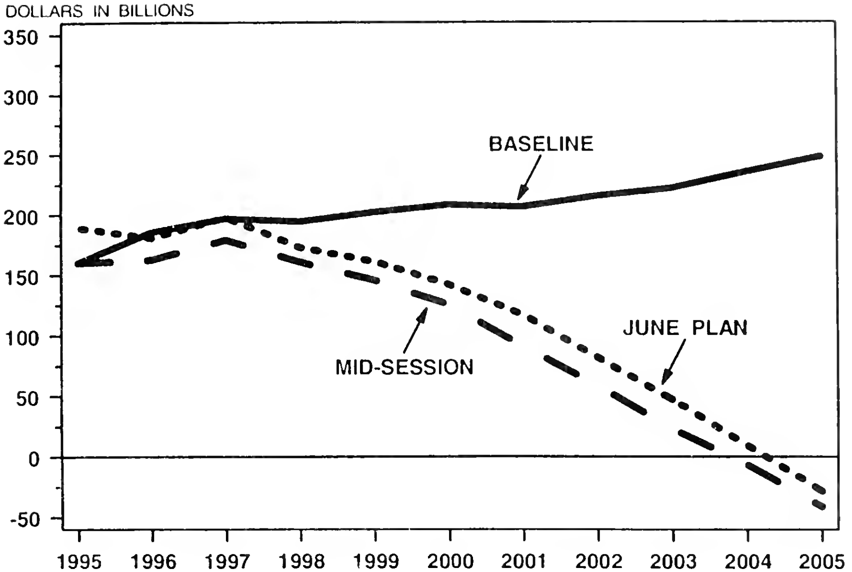
3. The third area for new savings is welfare reform. As you know, the President has made a major priority out of reforming the welfare system—which he believes does not serve any American, even its putative beneficiaries. He issued a welfare reform proposal last year, and his budget refines the proposal.

It includes fraud and error controls, fair and measured restraints on benefits to aliens, encouragement for beneficiaries to move from welfare to work, and investments in necessary child care and work programs. It maintains the nutritional safety net, targets support to the neediest, and protects poor children. We believe that this program is far more sound than the House-passed proposal, which purports to save more than twice as much but would tear apart the social safety net, impose unattainable work requirements, and, at the same time, cut funds for child care.

4. The final area for savings is other entitlements. The President would impose measured restraints in veterans and farm programs, emphasizing greater efficiency and market-oriented choices for agriculture. In student loans, the President would accelerate the transition to direct lending, which cuts Federal costs through efficiency—without added burdens on student borrowers or their families.

All told, the President's program provides more than $1.2 trillion of deficit reduction over 10 years, bringing the budget to a small surplus in 2004 (see Chart 3). The economic assumptions that support this deficit projection parallel those of private sector forecasts, and are very close to CBO's assumptions. Because those assumptions are the subject of some controversy, they may be worth a closer look.

CHART 3.—PROJECTED DEFICITS



THE ISSUE OF BASELINES

As long as the congressional budget process has existed—about 20 years—the administration and Congress have differed over economic assumptions and budget estimates. Appropriately, Congress set up its own estimating authority to provide independent information. Over the years, CBO and OMB usually have had different baseline estimates, though in recent years OMB and CBO assumptions have been much closer than in the 1980's (see Charts 4 and 5).

This year, the estimating differences have two major sources. Different economic assumptions account for about half of the difference in deficit estimates. Different technical estimates of health care spending account for about another quarter. A myriad of other factors account for the rest. These differences are modest.

According to CBO itself, "The economic assumptions of CBO and the administration appear quite similar. Yet the differences are sufficient to produce noticeable differences in budget projections[1] * * * The administration is generally closer than CBO to the Blue Chip's (the consensus of private economic forecasters) long-range projections."[2]

[1] "An Analysis of the President's Budgetary Proposals for Fiscal Year 1996," p. 3.
[2] "An Analysis of the President's Budgetary Proposals for Fiscal Year 1996," p. 10.

CHART 4.—CPI AND INTEREST RATE ASSUMPTIONS

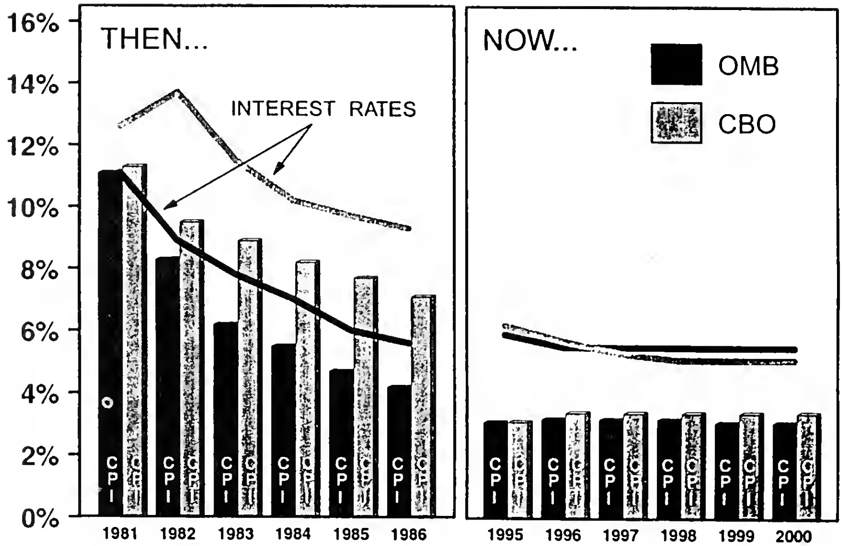
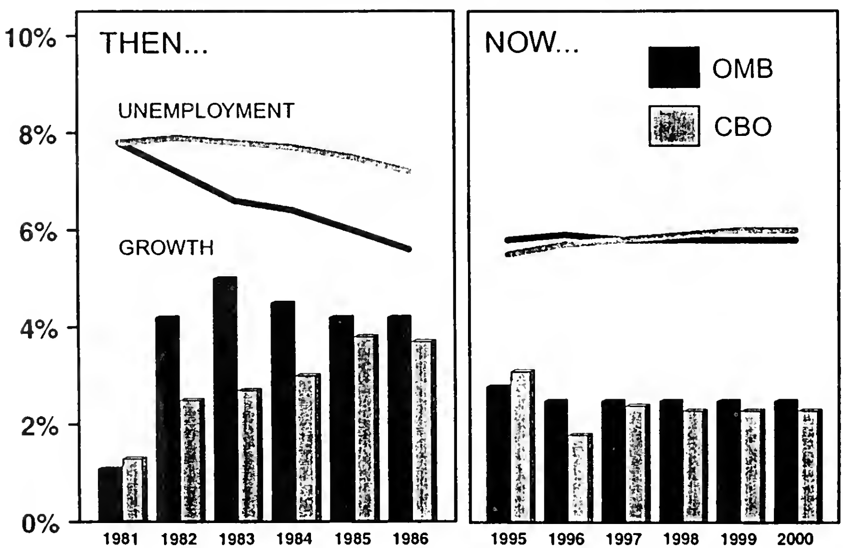


CHART 5.—GROWTH AND UNEMPLOYMENT ASSUMPTIONS



Differences in the economic assumptions are in fact quite small. For example, for 7 of the next 11 years—1995 through 2005—the current forecasts of real economic growth are just 0.1 percentage point apart; for 3 more years, the gap is just 0.2 points. Furthermore, as you know, Congress does not use CBO economic assumptions in its budget resolution. Congress' assumptions are even closer to those of the administration than are CBO's.

For the administration's major economic program in 1993, the President said he would use CBO economic assumptions—not CBO technical assumptions or its scoring of individual pieces of legislation—to take that possible source of friction off the table—in part because of the previous administrations' manipulation of economic assumptions in recent budgets. He still released his own economic assumptions that, in hindsight, proved more accurate than CBO's.

Now, the President is fulfilling his obligation to provide his independent assessment of the state of the economy, and to score pieces of legislation for purposes of the Budget Enforcement Act. This administration has earned credibility by the accuracy and prudence of its forecasts and projections over the past 2 years.

The administration-CB0 differences on technical health care estimates are also quite small. According to CBO, "Nearly half of the difference in projected spending can be found in the Medicare and Medicaid programs. Although CBO believes that the growth of those programs has slowed from the extremely high rates of recent years, it is not quite as optimistic as the administration about the slowdown. Given the size of those two programs and the uncertainty about their future costs, the projections of CBO and the administration are not very far apart." [3]

The health care growth assumptions in the administration's budget are, in fact, very close to CBO's. Both HCFA and CBO anticipate that Medicare and Medicaid spending growth will slow. HCFA projects somewhat more of a slowdown. For Medicare Part A, CBO projects cost growth of 7.9 percent over the next 10 years; HCFA projects 7.5 percent. For Medicare Part B, CBO forecasts 12.3 percent growth; HCFA projects 10.9 percent. For Medicaid, CBO expects 9.9 percent growth; HCFA forecasts 9.2 percent. In the words of CBO, "Given the size of those two programs and the uncertainty about their future costs, the projections of CBO and the administration are not very far apart." [4]

CONCLUSION

In sum, the President's program builds on his success in reducing the deficit in 1993. It takes a responsible, reasonable approach to the problem, proposing very real spending reductions on a scale that is attainable and consistent with the real purpose of deficit reduction: increasing the living standards of average Americans in the long run.

The debate over the budget is heated, and both sides have expressed strong opinions. The rapid responses of some observers suggest again that the President's proposal, as a reasoned and responsible approach to the problem, will take some fire from those who believe that there is always an answer that is quicker, simpler, and more gratifying in the short run. However, I believe, in the final analysis, that the President's plan will be seen to be in the best interests of the country over the long haul.

Chairman KASICH. Thank you, Doctor.

Let me just go to Mr. Kolbe.

Mr. KOLBE. Thank you, Mr. Chairman.

Thank you, Dr. Rivlin. I can kind of see right between here. Dr. Rivlin, I heard your rationale for why the differences are minor and so forth but, nonetheless, I think we saw the tape there before and I think we have to get to the basic question, what are we doing here? Is this the latest Presidential flip-flop or maybe we should say flop-flip here? Are we now saying we are not going to use CBO numbers, is that what you are saying to us, in making your assumptions?

Ms. RIVLIN. I am saying we have two reasonable projections here. Let me go back to——

Mr. KOLBE. But we have to use one, Dr. Rivlin. Which one are we going to use?

Ms. RIVLIN. I think we can work out a common baseline. I think if we had the technical people sit down and go over these numbers, we could work out a single baseline very easily. We then would have to run the numbers on both plans and see how they look.

[3] "An Analysis of the President's Budgetary Proposals for Fiscal Year 1996," pp. 3–5.
[4] "An Analysis of the President's Budgetary Proposals for Fiscal Year 1996," p. 5.

Mr. KOLBE. Dr. Rivlin, in February 1993, in the State of the Union Address, the President said, "I am going to use the CBO, so have one common set of figures."

Now, you say it is not very much. When I look at these cumulatively, over here, I do not think the American people would think that it is not very much if you are talking about a projection of a deficit of $200 billion in the year 2005. Who knows what this surplus would be in the year 2005. I think that is rather significant.

Ms. RIVLIN. I am saying the differences in the technical assumptions, which lead to those differences in the outyear budget estimates, are quite small and that we should agree upon a common set of assumptions. Can I make clear what was happening in 1993?

Mr. KOLBE. Well, I think you could discuss that, yes, but go ahead, certainly.

Ms. RIVLIN. Thank you.

We had just come into office. We had been in office for less than a month. At that time, we were not prepared to make our own forecast. It seemed convenient, and important for an agreement, to use the CBO numbers in February 1993.

We then established our own forecasting capability, and I would say our forecasting record has been a very good one. It is not possible, as a matter of course, for the administration, in making its budget every year, to use the CBO numbers if only for a practical timing consideration.

Mr. KOLBE. Right. Doctor, let me——

Ms. RIVLIN. Could I finish my sentence?

Mr. KOLBE. You may finish the sentence. I only have a limited time, I would like to get in another couple of questions.

Ms. RIVLIN. Right, sorry.

Mr. KOLBE. Yes?

Ms. RIVLIN. I think the portion of the tape implies that the President promised he would use CBO numbers forever. In fact, we only used CBO numbers once, in February 1993. Since then, without any objection from Congress, we have used, as administrations must, our own forecasting and estimating capabilities.

Mr. KOLBE. Now, I must interrupt you. I mean we may have unearthed here today what may be the greatest monumental flip-flop in the Clinton administration. Now, we are hearing that we only promised to use CBO for 1 year. I do not remember on that tape saying that this was going to be used for 1 year. I do not remember anything of the sort being said.

Chairman KASICH. Maybe we can go back and replay the tape.

Mr. KOLBE. Well, we could if we need to replay the tape here. But this strikes me as we have unearthed a whopper here today.

This is like a double, triple, off-the-diving-board flip here, as we go into the water here.

Ms. RIVLIN. Absolutely not. Did you not notice when Leon Panetta came to present the "Mid-Session Review" in the summer of 1993, or when he came back to present the 1994 budget, or when I was presenting the last budget, that we were using our own numbers? Did you not notice that?

Mr. KOLBE. Well, we had agreed that when we were going to prepare our budgets and we were going to talk using the same numbers. I just want to point out one other thing here. When you keep

talking about these being minor differences, yes, they are minor differences.

But I urge you to look at them cumulatively: the real GDP forecast, the inflation, the CPI forecast, the 10-year Treasury note rates and you add those up and they are minor if you look at one of them. They are minor if you look at one of them in 1 year, but you add them up cumulatively and you put all of those together, the differences are obviously significant enough to lead to this kind of difference here. And this is big. And if we do not have some kind of commonality in what we are talking about, we are never going to be able to deal with this issue.

My time is up but I just want to say one last thing. This is the detail. The detail that we have in your new budget, this is now the budget of the President of the United States. That is the detail. Here is the stuff that so far that we have come out with on the House budget resolution. This is not all of it here. But I hope, in our further questions, we can get into the issue of some of the details in this budget as to how you arrived at some of these numbers that you have.

My time is up. I thank you, Mr. Chairman.

Chairman KASICH. Mr. Sabo.

Mr. SABO. Thank you, Mr. Chairman.

History is rewritten in many ways. See, I recall what the President did in 1993. He used CBO economic assumptions and maybe their interest rate assumptions, but OMB did the scoring of projected outlays for the administration's proposal. And the reality was, as we dealt with the budget, we discovered that CBO had different scoring than OMB and we had to deal with adjustments because there was different CBO scoring than OMB.

Mr. Kolbe, we had to deal with that in 1993 because those variations exist. Again, in 1994, I forget what economic assumptions were used in the 1994 budget. I think you used your own.

Ms. RIVLIN. Yes, we did use our own.

Mr. SABO. So that is nothing new. Again, as we dealt with estimates of outlays, we used CBO and we had to make adjustments in the administration's policy because of differences.

Let me ask you this, Ms. Rivlin, in the case when we eventually passed appropriation bills and they are scored for the purpose, whether sequestration is required or not, who does the law require to do that scoring?

Ms. RIVLIN. The Office of Management and Budget. If it were otherwise, it would be a violation of the separation of powers.

Mr. SABO. We also, last year, added a provision to the Budget Act which provides that if projections of entitlement programs are going faster than projected we have an automatic review process. Who does the scoring for that purpose?

Ms. RIVLIN. OMB does, I think for the same reason.

Mr. SABO. So when we come to official scorekeeping for the purposes of kicking in any sequestration or anything automatic it is OMB that does the scoring. As I have said earlier these differences are important. Eventually you have to have common agreement on the economic assumptions for writing a budget plan. But in terms of any historical perspective the differences between OMB and CBO today are relatively modest. They are not the type of dif-

ferences that existed in the 1980's. They are within the realm of good judgment.

Again, it is simply the reflection of the immense impact that slight variations in the economy or slight variations in interest rates have in the long-term projections or in the long-term reality of what does or does not happen with the Federal budget which, many times, dwarfs the decisions we are making on individual spending programs.

Let me ask one question, I asked this of Ms. O'Neill. I notice while you have your variations in projected expenditures in the health care program, both OMB and CBO are projecting sort of a spike upward in both Medicare and Medicaid in 1996. And I am just curious why both of you think that is happening. Actually OMB is projecting Medicare will go up 14.2 percent in 1996, CBO 13.1 percent.

So your increase there is higher than the increase—I guess you have a somewhat lower base in 1995—so it is down, the growth is down in 1995, and jumps in 1996, under both of them and then starts reducing again in 1997. I am curious if you know what drives that projection?

Ms. RIVLIN. I do not know the reason for that. I will certainly look into it.

Mr. SABO. OK. I thank you.

Chairman KASICH. Mr. Hoekstra.

Mr. HOEKSTRA. I thank the Chairman for yielding.

In some ways I find it humorous and somewhat almost insulting. I have heard over and over for the last number of months that the 7-year tax reduction of around $240 billion is a huge tax cut. Then I hear about these little technicalities that are the differences between OMB and CBO scoring as being minor technicalities. The end result being that somewhere between the differences between the Republican plan and the plan that was presented by the President—I just quickly did it over the 7 years—is about a difference of $700 billion in spending.

And what the President said on the tape was we want to have a policy debate and when one plan has $700 billion more in spending than the other, when in the year 2002 the President's plan enables him to spend $200 billion more than what the conference plan spends, I do not know how you can sit there and say we are actually going to have a debate about policy.

The one team has $200 billion more to spend getting to the same result. How can that be and how can this be a policy debate? And how can you sit there and how can the administration sit there constantly and say, Republicans are being mean-spirited, they are cutting this, they are cutting that, they are cutting that and sit over here and say, we are getting a balanced budget and there are only minor differences and technicalities.

You have $200 billion more to spend. How can you justify that and say they are just technicalities?

Ms. RIVLIN. I think we are mixing up two things here. I did not say that the differences between the baselines weren't large.

Mr. HOEKSTRA. They are huge.

Ms. RIVLIN. I said that the differences in the assumptions about growth rates and inflation rates and interest rates, the things that

drive those estimates, are small and that although they are small, they lead to large differences in the outyears.

But if I may pursue your question. I think that even if you were working with the same baseline, you have two different approaches to government here. The Republicans would like a larger tax——

Mr. HOEKSTRA. We are not even talking policy here, yet. Excuse me. We are not even talking about different approaches. We are talking about different end games. We still do not have a plan that we can see that shows how you get to balance to compare to how we will get to balance. There is no comparison between the two.

Ms. RIVLIN. You were suggesting that the President would spend more. That is true. But he also would not have as big a tax cut. Those are real policy differences. And we deserve the chance to talk about them.

Mr. HOEKSTRA. But the policy difference, when you get to specific programs, you have $200 billion more to throw around than what the Republicans have. And so you can say we are cutting all of these types of programs. And you can sit there and say, well, but we are funding all of these new things because you have $200 billion in—I do not know where it came from—that the other team, the other side does not have any chance of saying, this is what we would do with this money if we used that scoring system.

Why do you not just come back to use our scoring system—and, you know, it is kind of interesting. You are right. There are two different philosophies of government and I have got to believe that you would almost endorse the Republican policy. Going back to your book, "Reviving the American Dream," improving education—that is one of the major things that the President is claiming credit for—improving education will take bottom-up reform. Presidential speeches and photo opportunities, national testing and assessment can make only marginal contributions to fixing schools.

The popular Head Start Program, change would come more rapidly if concerned citizens, parents, and educators worked to improve their own preschools instead of lobbying Washington to allocate more funds for Head Start.

You go on, proliferation of grants, 500 categorical programs.

Ms. RIVLIN. I think we all agree that there are too many categorical grants, and we have proposals to reduce the number of those grants.

Mr. HOEKSTRA. Top-down management by the Federal Government is unlikely to bring about needed change in education, skill training and other areas where reform is needed. I mean, you know, this is a wonderful book to actually reinforce what Republicans are trying to do in their agenda. The States, not the Federal Government, would take charge of accomplishing a productivity agenda; reforms designed to revitalize the economy and raise incomes. These reforms would address needs such as education and skills training.

Chairman KASICH. The gentleman's time is expired.

Mr. HOEKSTRA. Thank you for the book and the ideas.

Ms. RIVLIN. I am not apologizing for the book and I think many of the things that you just read are very strongly represented in the President's budget plan, which we do not seem to be talking about here.

Chairman KASICH. Mr. Parker.

Mr. PARKER. Thank you, Mr. Chairman.

I have enjoyed all this talk about humility this morning and being one of the more humble members of this body——

[Laughter.]

Mr. PARKER [continuing]. Let me just ask a couple of questions or at least make an observation. I agree with what the President said. I agree that we need to have a common set of numbers whereby we can talk about priorities and I think that is where the discussion should be.

The President just did not say that he wanted to use CBO numbers just because it happened to be the thing to use at the time and you were not set up at the time. What he said was I want to use CBO numbers because they have historically been the more conservative of the numbers that have been utilized, that have been brought forward. And I found it interesting his justification.

What he said was, when you use the more conservative estimate the beneficiary will be the American people. And I think that is what we should do. You have already stated to this committee that the differences are minor in the assumptions, when you look at them in the short term.

But I think that we need to use the President's rationale and make a decision that we are going to use the more conservative of the estimates so we are dealing with exactly the same numbers, and then we can start talking about those priorities. Because that is what is eventually going to decide, make the decisions for us, because the American people will make those decisions.

Now, what bothers me a great deal and I think it bothers the American people, I see this as a turf battle. And I am watching CBO—and when you used to be with CBO, you always had to fight with OMB—it is nothing more than a turf battle, we are playing a game here.

And I, personally, resent it. I think that we should do exactly what the President said, we should use the more conservative numbers and move on to start talking about priorities.

My question to you is, what has changed—when the President talks about using the more conservative figures and the beneficiary being the American people—what has changed since he made that speech until today?

Ms. RIVLIN. I think one thing that has changed is the track record of the Office of Management and Budget. As I said earlier, and no one can controvert this, our record of making projections, both for the economy and the budget, has turned out to be very conservative in light of the facts.

Mr. PARKER. I agree with you, you have done a great job. I am not saying you have not done a wonderful job. I am not arguing that. I think you have been just fantastic. But the more conservative numbers have been done by the CBO. Of the two choices we have got, the more conservative numbers are the CBO numbers, is that right?

Ms. RIVLIN. They are on most things.

Mr. PARKER. OK. And the President has said, if we use the most conservative numbers, the beneficiary will be the American people. Now, he said that. And they are the most conservative numbers.

And you have done an excellent job. And I will tell you if you had the more conservative numbers I would be fighting for you right now, because I would say that we should use OMB because you had the more conservative numbers. But you do not. CBO has got them.

So why do we not just agree that we should use CBO numbers?

Ms. RIVLIN. I think we should agree on a common baseline and I believe that we will. As soon as all this grandstanding is over, we will sit down and begin a serious budget negotiation. And the first thing that will happen is that we will agree on a common baseline. It is not very hard to do and it will be the starting point for the negotiation. But right, now it seems to be a diversion from talking about the real differences between the two plans.

Mr. PARKER. Well, let me try and not delay any more, because I do not want to ask any more questions. What I want to do is let us move on and let us agree on the more conservative numbers and move forward.

Thank you.

Chairman KASICH. Would the gentleman yield?

Mr. PARKER. Of course.

Chairman KASICH. Let me tell you, this is real hard for me to want to sit down when we are being accused of grandstanding on a statement that the President made about how he wants to do this.

Now, I sat through the crime bill with the Democrats and was almost hung by my own party and stripped of this position because I negotiated with people on the other side in good faith. And Alice, we keep doing this. You are going to drive us—I mean this is just going to get real bad.

I do not think you wanted to use the word, I hope you did not want to use the word, grandstanding. I put off this thing for weeks and it just kept up and kept up. And Peter Hoekstra has hit on the critical point. You got money to spend, you can run around all over the country promising every group what they want to have, and, frankly, being demagogic in the process. We are not going to get this done if we are going to continue that.

Mr. SHAYS. Ms. Rivlin, I have been in politics over 20 years. When I was in the State house I looked at congressional deficit spending and just ached thinking that we could not do it in the State house, and grateful we could not, but thinking what was Congress doing and what were the Presidents doing to the future of our country?

And then when I got elected, I became part of a group with John Kasich and others who tried to get our financial house in order. And John would introduce amendments to his Republican President to try to get our financial house in order. I think we have one of the greatest opportunities of a lifetime if the White House would recognize for the first time ever you had a Congress that was willing to cut spending and take the heat.

And I saluted the President when he said we should use CBO numbers. I need to be clear on one thing. Has the President reneged on his pledge to use CBO scoring? I do not want a lot of rhetoric. I just want to know if he has reneged on his pledge.

Ms. RIVLIN. In offering his plan in February 1993, the President said he would base it on CBO economic assumptions.

Mr. SHAYS. He said that in 1993? I did not hear that?

Ms. RIVLIN. The tape we just saw was a clip from February 1993.

Mr. SHAYS. So it was in February 1993.

Ms. RIVLIN. Yes. In February 1993, when the President was presenting his economic plan——

Mr. SHAYS. So what is the answer to the question?

Ms. RIVLIN [continuing]. He said it was based on CBO economic assumptions.

Mr. SHAYS. No. He encouraged us, in Congress and the White House, to use the same numbers, CBO scoring. I basically get the sense that you do not want to say that he no longer agrees to use CBO scoring.

Ms. RIVLIN. We have never used CBO scoring, as Mr. Sabo pointed out, and we have not used CBO economic——

Mr. SHAYS. When the President signed his bill——

Ms. RIVLIN. Can I finish?

Mr. SHAYS. He presented two budgets. When he signed the second budget that was a CBO-scored budget and it is an outrage for you to imply that the second budget he scored was not. It was scored by CBO. Now, the question I want to ask you is, were you concerned in 1990 when Congress got together with the White House and agreed to basically cook the scoring? That is basically what I hear you suggesting today. We will get John or somebody else and we will convince him to go along with your scoring and then we will convince you to go along with our 7-year plan and it is going to be nice and easy and there will be no heavy lifting. That is what I sense is happening.

Ms. RIVLIN. I am not suggesting that at all. Let us get the facts straight. We used CBO economic assumptions in February 1993. Since then, indeed, very shortly thereafter, we began using our own economic assumptions. We have always used OMB scoring. We are required by law, as was pointed out earlier, to use OMB scoring for purposes of sequestration.

This whole argument seems to me to be a diversion.

Mr. SHAYS. No. It is not a diversion. And for you, as someone with the talent and knowledge and background, for you to say that is an outrage. There is nothing divisionary about this. When you take a look at what CBO says about your scoring, when we look at it, CBO says that under current law, the law that passed 2 years ago our deficits would go up to $454 billion. They say with the President's plan it would go up to $276 billion in the year 2000. That is what CBO says.

When CBO scores your plan they say it never gets in balance. They say, in the last few years, it is 210, 207, 209, 209. They say you never have a balanced budget. That is not a divisionary thing. We are required, at least in Congress, to abide by CBO, and then when they look at our plan they say it is 7 years and we are going to balance it in 7 years. We are not going to cook the books. We are not going to be part of a plan to get together with the President and make these assumptions that are just totally unrealistic.

Ms. RIVLIN. Nobody wants to cook the books.

Mr. SHAYS. No, that is not true.

Ms. RIVLIN. I am only saying——

Mr. SHAYS. No. It is cooking the books. I am sorry. I want to interrupt you on this one thing. You have said these are technical changes. They are not technical when you see numbers like this. For you to say it is only technical is an outrage.

Ms. RIVLIN. Let us take the GDP growth rate as an example. I don't know whether it is going to be 2.3 or 2.4 or 2.5 percent. Nobody knows that.

The average difference between OMB and CBO GDP growth rate assumptions is about one-tenth of a percentage point.

Mr. SHAYS. I know it is small but the implication is so large in its impact, that is the problem. I have been there before. I was there when Dick Darman told us, just like you, the rosy scenario and I bought it. I agreed with the President in 1990 and I screwed the country in the process and we are not going to do it again.

Ms. RIVLIN. We are not talking about a rosy scenario here. We are talking about differences of one-tenth of a percentage point. And it really does not matter which set of assumptions you choose. I don't know the answer and I don't think June O'Neill knows the answer either. It would be useful to have a common baseline that the administration and Congress could agree on before we begin a serious negotiation over the budget. I do not think we can say what is right. But we can agree on a common set of assumptions.

Mr. SABO. Would the gentleman yield just for one second?

Let me say there is lots of rhetoric about what was or was not used in 1993. The administration used CBO's economic assumptions in 1993. I do not believe they did in 1994. In terms of outlay scoring, in 1993, the administration used OMB and we used CBO and we had the same problem you are having now. All of a sudden we discovered we had to find—I forget what it was—$50 or $60 billion more.

Mr. SHAYS. See, I do not mind that. I do not mind stepping up to the plate. It is not a problem for me. What the problem is that the administration is not seizing this moment to get us to do the right thing. They want the rosy scenario.

Mr. SABO. No. This is not a rosy scenario.

Mr. SHAYS. It is not a rosy scenario.

Mr. SABO. It is slightly different economic assumptions. Eventually we have to have agreement. There are differences, you make your point, CBO is somewhat more conservative than OMB. I think there is probably a good case to do what Parker said to take the more conservative economic assumption.

But to try and make this the type of difference or the type of rosy scenario that you had in the 1980's, Mr. Shays, is just totally wrong. We are talking about a 1.3 percent variation.

Mr. SHAYS. There is a hell of a lot of difference between a deficit of $209 billion in the 10th year as scored by CBO and OMB saying it is not a deficit. There is a gigantic difference.

Mr. SABO. I understand that. But we have dealt with outlay scoring differences. They existed in 1993. I had to sweat through it. I was not very happy when I got that report from CBO. You know, so that is nothing new, we have have had to deal with that before.

Chairman KASICH. But you dealt with it, Martin.

Mr. SABO. Yes.

Chairman KASICH. I mean you did what we are demanding they do. But you know what, I got unanimous consent recommendation that we make Mike Parker the new referee on all these matters. [Laughter.]

Let me to go Mr. Browder, you are recognized for 5 minutes.

Mr. BROWDER. Mr. Chairman, I agree with Mike Parker. I think the American people out there, if anybody is watching this, is saying, those folks have not learned a thing, they are still bickering about technicalities. Whose books, whose numbers do you use?

I happen to subscribe to the belief that we ought to use the CBO numbers. The budget that Mr. Stenholm and Mr. Orton and I worked on used the CBO numbers and came up with a budget that achieves deficit balance by 2002, just like Mr. Kasich and the Republican budget with a different way of getting there.

But I think that we have to get beyond this, and what I would suggest and this is a question as well as a suggestion. Dr. Rivlin has volunteered to sit down with Mr. Kasich on this side and talk it over and come to some common terms. I do not know whether anybody has sat down yet. Mr. Shays made a legitimate point about 1990, he is concerned about that. But if you have not met, how about get together and either come up with something that can allow us to move on to some policy discussions and quit this bickering. Get together and if we cannot agree—there are people in this room and other rooms that are better at this than I am and move involved in it—but if we cannot agree, then let the President go on saying whatever he is saying, using OMB or whatever he wants to and Congress can use CBO and we will do whatever we want to.

But the American people, everybody in the world saw the President talk about CBO. The whole world saw it. So I would like to suggest that somehow we at least try to come together and if we cannot agree, then we just go ahead with CBO.

Now, I criticized the President's initial budget, Dr. Rivlin and I commended him and complemented him when he came back into the credible field. I want to ask a policy discussion rather than whose books do we use? And I think I am justified in doing so because the white paper used rhetoric over reality, used for our hearing today includes the subject, why prolong the effort? It is an argument between the President's next 10 years and Congress' 7 years.

And it says, "You are prolonging and making the job much harder by doing it in 10 years rather than seven." I think we ought to get around, back to the question of why do we not do it in 6?

You know, we could use the budget that Mr. Kasich has, throw out the tax cut which the American public does not support, whether the President or the Republican leadership wants it, economists do not support it and a large segment of the business community does not support it. But if we threw that out we would have a lower glide path every year and I know it is nice to give the people back something, a little of what they send in. But we are concerned about balancing the budget. We could have a lower glide path every year and achieve balance a year earlier.

And the sooner you can achieve balance, the better off you will be and you will not have to do such heavy lifting to get there. I think we ought to consider that, get on to that kind of discussion.

But, Dr. Rivlin, I would like to ask you a question. Not about whose books we use, but you were CBO Director, I think, in 1980. That is the last time I think that the President proposed and Congress passed a balanced budget, is that correct?

Ms. RIVLIN. Right.

Mr. BROWDER. Then 2 years later, President Reagan proposed one that he said would achieve balance, I think, by 1984. I am not going to get into an argument about a Democratic balanced budget versus a Republican plan, but you were there. You were involved in it in 1980, when we passed one.

Could you answer two questions very quickly. What went wrong with that 1980 budget, what went wrong with President Reagan's 1982 budget? But the real question, what can we learn from that experience that will help us in dealing with the problem today? And stay away from whose numbers do we use and I would like for you to go back to your nongovernmental position, go back to your previous life, and tell us what can we learn that will help us, both Democrats and Republicans who want to move forward on this?

Ms. RIVLIN. I think the 1980 experience was fairly simple. Early in that year, everybody's economic projections, were reasonably optimistic. And then we slipped into a recession that nobody anticipated.

I believe the 1980 budget would have been a balanced budget if the original economic projections, which were not particularly rosy, had come to pass. The only lesson we can draw from that experience is that if you are at balance and the economy goes sour, you will automatically get a deficit because revenues fall off and some kinds of spending increase.

The deficit in that year was not huge by current standards but it was economic——

Mr. BROWDER. Dr. Rivlin, I see that red light up there so I am going to ask you to move on forward to the second one. What lessons can we learn from those two, Democratic and Republican?

Ms. RIVLIN. The lesson we can draw from the Reagan-era budgets is that the administration was trying to do inconsistent things. It was trying to increase defense spending and cut taxes at the same time. The only way you can do that and still arrive at a balanced budget is to make drastic cuts in domestic spending. Those cuts did not occur.

And the projections for balance in those budgets were so rosy that nobody in the private or public sector thought they were realistic.

Mr. BROWDER. I will close, Mr. Chairman, by saying I think that demonstrates my point which is I am for tax cuts, most of us are. But I think they ought to be tied to performance and delayed a year. And the administration did not propose that or the Republican budget. Locked in with a very strong lock to be delayed a year to make sure we are hitting our deficit reduction targets each year. Because I am afraid that what we will end up doing is falling off the wagon and we will have dug the hole much deeper with these

cuts. And the American public will be in worse shape a few years from now.

Mr. Chairman, thank you for your patience.

Chairman KASICH. The gentleman from New Jersey.

Mr. FRANKS. Thank you, Mr. Chairman.

Dr. Rivlin, welcome.

Ms. RIVLIN. Thank you.

Mr. FRANKS. Dr. Rivlin, last night I got home after the last vote around a quarter to 1 and I was channel surfing and saw CNN "Headline News." And they said that they had learned of a report—and since you are the first high-ranking administration official I have seen since yesterday—I want to run it by you and find out if there was any truth to it.

Ms. RIVLIN. I cannot wait to know whether it has to do with Bosnia or where we are here.

Mr. FRANKS. No, in fact, it was Medicare.

Ms. RIVLIN. Medicare.

Mr. FRANKS. And what CNN reported was that they had learned that there were plans being very seriously considered at the White House for major transformations of the Medicare program, specifically that would grandfather all existing participants in the Medicare program but by the year 2010 would require that eligible seniors be moved into a more market-driven relationship in order to secure health care.

I will get to your budget, but I wanted to know, are there such serious discussions at the White House about a scope of change that great in Medicare?

Ms. RIVLIN. Not that I know of. We are always interested in examining possible changes in all programs, but we are not considering major changes in Medicare at this time, other than the reductions in the rate of growth of spending that we have proposed in our budget.

Mr. FRANKS. Going to Medicare, in April the trustees of the Medicare trust fund indicated that at current levels of spending and income it would go bankrupt in 2002. Less than 3 months later, the President, as part of his restructured proposal, called for an expansion of some benefits within the Medicare program.

I am curious, getting to the issue of policy that you wanted to discuss earlier, how are we going to do that? How are we going to finance those expansions of certain forms of benefits? And if we were going to find other offsets, other reductions in spending to pay for those new services, would it not have been a better policy to invest that back into the Part A trust fund, to extend the viable life of Medicare for the Nation's seniors?

Ms. RIVLIN. Our proposals would push out to 2005 the year in which Medicare is projected to run out of money. The Medicare problem is really two problems which I think we are all working on. One is how to reduce the rate of growth of Medicare in the short-run as a part of the budget reduction exercise. The other is to see how we can put the trust fund back on a solid footing for the long run.

Mr. FRANKS. Doctor, I do not have much time. Can we talk about how we are going to finance, in your budget document, the expansion of benefits for Medicare recipients?

Ms. RIVLIN. Yes. We have two relatively small but, we think, important expansions to benefits. One is providing respite care for Alzheimer's diseasè and the other is waiving the copayment on mammography. And those are offset against the cuts that we are proposing so that we have a net reduction in Medicare spending. But we do finance those two benefit expansions.

Mr. FRANKS. Your "Mid-Session Review" also calls for remarkable expansion in the Department of Commerce, nearly doubling between 1995 and the year 2000. There is work undertaken in both houses of Congress this session looking to reduce significantly or terminate the Department of Commerce. Could you name any programs within the Department of Commerce that would be eliminated under your budget proposal?

Ms. RIVLIN. I would have to check that, but we think the Commerce Department is basically doing a good job and that its technology programs and the programs that promote increased exports and the expansion of trade are very important.

Mr. FRANKS. Let me to go the policy issue that you raised earlier. You raised earlier a point that a standard of measure that you wanted to apply to the policy debate and you posed the question who will suffer if we move toward a balanced budget under a variety of scenarios?

One of the most apparently important programs in this budget would move from $500 million to $1 billion and it is the advanced technology program, the one that gives grants to General Electric, IBM, Hughes Aircraft, and Xerox to do new product research.

Who is it that would suffer or are we talking about cutting Medicare and other programs or reducing the rate of increase to a greater extent in order to accommodate a doubling of the ATP program?

Do you consider that corporate welfare?

Ms. RIVLIN. No, sir, we do not. We consider the development of new technology to be a contribution to the future productivity of the economy; some of the development takes place in big companies, and some takes place in small companies. If we don't stay on the forefront of technology, we are not going to have a productive economy in the future.

Mr. FRANKS. These companies would suffer?

Chairman KASICH. His time has expired.

Ms. RIVLIN. Can I make one correction?

Chairman KASICH. Yes, you can.

Ms. RIVLIN. The main reason for the increase in Commerce's budget is that we are gearing up for the 2000 census, which comes under Commerce, and I do not think anybody would want to close that one down.

Mr. FRANKS. Doctor, if I can, you are right. There is a big bubble to accommodate for the census but even between now and 1998 there is a marked increase that is not offset by gearing up for the census.

Ms. RIVLIN. No. It is partly ATP which I am defending, as you see.

Chairman KASICH. Ms. Rivers is recognized. Oh, she is gone. Mr. Olver is recognized.

Mr. OLVER. Thank you, Mr. Chairman.

I came in somewhat late so I have been sitting here quietly listening to the comments and the bickering back and forth. I think I am very happy not to have seen the tape earlier today because I think it is really pretty fruitless to be trying to, from that tape, to decide whether the President promised for all time in the future to follow CBO numbers.

The fact is that of the recommendations here and the difference in assumptions, the average over an 11-year period is one-tenth of a point, the smallest possible point difference in the estimates of real GDP and the differences on Consumer Price Index and inflation that may come from this is the smallest possible difference of an average of one-tenth of 1 point over that period of time.

I must say that I am quite happy to follow the President's programs and think with those in place, given the fact that he has managed to, in period of time since that utterly disastrous growth of debt and deficits that followed from 1981-to-1993, that he has managed in these last couple of years to reduce the deficit from $290 billion to $160 billion which, I think, is a pretty good projection for this year. And until it is clear that the estimates that someone else is using are considerably better and obviously better than those that have helped him to get to that point, I am quite willing to allow him the discretion to use the programs in the OMB in the best economic estimates that come from that in putting forward the policy that we need to follow.

With that, I will yield to the gentleman from North Dakota.

Mr. POMEROY. I thank the gentleman very much for yielding. Maybe there is some confusion, Director Rivlin, about the role of the CBO versus OMB and you are the most uniquely qualified person in the country to speak to the respective roles of these entities, because you have been the only person in the country to have held the leadership position in each entity.

At the time that CBO was constructed, it was really never intended to be the sole source of budget estimates for this country, particularly given the number of subjectivities within making those very difficult projections, is that correct?

Ms. RIVLIN. That is definitely correct. The Office of Management and Budget, which dates back much further than CBO, was already in existence when CBO was created. CBO was created to give Congress its own estimating capability, and it has done that very well.

Mr. POMEROY. Precisely. It was a matter where the President had had all these budget experts, the President, through OMB, could get budget numbers, but Congress did not have any independent budget authority and, therefore, created CBO for the purposes of getting that budget authority. At no time was it suggested, in its creation, that this would be the sole source of economic projections in the country going forward, is that not correct?

Ms. RIVLIN. That is right.

Mr. POMEROY. And, in fact, if early in an administration this President or any President, would basically say to OMB this function of the executive branch is not important any more, we will just go with the Congressional Budget Office, they would literally be flying blind by not having retained that internal projecting function, is that not correct?

Ms. RIVLIN. I think that is right. The President has to have an estimating capability, and he has a strong professional staff at OMB to do those estimates.

Mr. POMEROY. A final comment. I do not see the red light, yet, Mr. Chairman. I will wait until my time to do it. Thank you, Mr. Chairman.

Mr. ALLARD [presiding]. I just assumed this position, so go ahead. We will come back and recognize you again.

Mr. POMEROY. I was speaking on Mr. Olver's time. I will just wait and take my time. Thank you.

Mr. ALLARD. Very good.

The gentleman from New York, Mr. Lazio.

Mr. LAZIO. Thank you, Mr. Chairman.

Good afternoon, Dr. Rivlin. I am sitting here and I had some questions I wanted to ask and I was listening to my friend, Chris Shays. And I have to share with you that I am, frankly, as appalled as he was with respect to some of the representations that you have made on behalf of the President. I do not want to ask to show the President's remarks from 1993 for the third time.

But to talk about historical perspective and explanations, the representation was made that we would use common assumptions. You said before that we need a common baseline, that we need to find a common set of assumptions. The President agreed. It was not a memo from Alice Rivlin or Reischauer or anybody else. The President made those remarks to the Congress. He made those remarks in front of television cameras to the Nation. And he made those remarks to the world. And to the extent that now you are saying—and I think I hear you saying—that that was not true or not accurate or that somehow it was only true for that year, although the President never said or qualified that, that he was only going to use CBO for 1 year, that affects the President greatly.

And, to the extent that the President is watched by the world it affects America's credibility. And I am greatly disturbed by the word game that is going on here. The fact that we have the ability to come to common terms on assumptions and the fact that this is not just rhetoric, this is something that the President agreed to do and told the American people. This was a promise that was made. He did not make it once in a passing statement. He made it several times. He knew exactly what he was saying. He did not qualify it.

Ms. RIVLIN. We did use CBO economic assumptions in the President's 1993 economic plan, which passed through Congress with no Republican votes and has been an enormous success.

Mr. LAZIO. Well, let me ask you then, you have another budget that you are going to be proposing. Will you commit that the President will use CBO scoring to submit a budget that will be in balance?

Ms. RIVLIN. No. I have a job to do. I run the Office of Management and Budget and we have to do the best professional job that we can for the President.

Mr. LAZIO. I appreciate the difficult position that you are in, Dr. Rivlin. I appreciate that. I think that is a terrible position to be in. But I have a real serious problem and I think every member of this body ought to have a very serious problem reconciling the statements that were made by the President. The fact that you are not,

as his representative, now not willing to commit to act in accordance to the representations that were made by this President, and, of course, you would not want to live by the CBO scoring which we heard before, actually gave you, in many cases, better, in terms of programmatic scoring, they did not have the chance to score some of these things so they took your numbers because they did not have sufficient specifics. But I just want to characterize some things here.

Bob Reischauer, the former CBO Director, who I know you greatly respect and admire, characterized the President's claim to a balanced budget by saying he lowered the bar and then gracefully jumped over it. The CBO numbers show that the President's budget that was submitted—this was the second budget, and the first one went down by a vote of 99-to-0 and not one Democrat supporting it in the Senate—would have had higher deficits every year than we have this year, including a deficit of $209 billion in the 10th year so that it is not a balanced budget plan.

Ms. RIVLIN. We never claimed it was.

Mr. LAZIO. The second budget that was submitted?

Ms. RIVLIN. I thought you were talking about the first budget.

Mr. LAZIO. This is the second budget that I am talking about right now that is out of kilter according to CBO numbers and will continue to be for the foreseeable future, through the 10th year where we will continue to have a $209-billion deficit. And what does that mean?

It means in terms of spending the difference between what you propose to do—and I say the second time around, because the first one went down 99-to-0 in the Senate—and what we are doing is actually you want to spend another $370 billion more over 7 years. That is, in effect, what the difference is between the President's budget and the budget resolution.

And so to the extent that you are trying to reconcile and have the ability to spend another $370 billion and go around and say that you got to a balanced budget and you can do that because we are not adhering to CBO numbers any more, what you have done is throw the President's credibility out the window. Because the President has said to the Nation that to the world and to this body that CBO scoring is what is appropriate.

Mr. ALLARD. The gentleman's time has expired.

Ms. RIVLIN. I assume that was not a question.

Mr. ALLARD. I will now call on the gentleman from North Dakota. And I will wait 30 seconds before I turn on your light to give you that time and I apologize for the interruption.

Mr. POMEROY. That is all right, and I thank the chair very much.

Honestly, watching these feigned hysterics about OMB versus CBO is pretty incredible. The tape would have shown statements made in 1993, budget cycle now long past. I can understand perhaps why the majority members would rather talk about that one than the one that they are right in the middle of because they are obviously having tremendous difficulty putting the specifics on the plan that came out of this committee.

But let us review, for history, what has happened, even at CBO, since that period of time. I have a new director. I have tremendous regard for Dr. O'Neill, but she was confirmed without hearing in

this committee. We did not have a chance to ask any questions and, in fact, when we started to debate the qualifications of Dr. O'Neill, Mr. Nussle moved previous question, debate was cut off and we were not even allowed to discuss the qualifications of the new CBO director.

Now, to suggest that a President is going to be bound for time eternal from a commitment made on one budget cycle regardless about what should unfold since is just ludicrous. The Office of Management and Budget is an essential part of this administration or any administration in order to have the financial estimates critical to submit essential budget planning for this country.

One other thing that I would just have to make an observation on because I about fell off my chair when I saw it, is that this big pile of stuff my friend, Representative Kolbe held up about saying professing the detail of the Republican budget plan.

On May 10, we were initially exposed to this plan. I say, initially exposed, because that was the first time any of us in the minority had a chance to see it. May 10 also happened to be the day it was passed out of this committee with just a few hours debate.

But that was better than 2½ months ago and although we know that that plan will mean a $270 billion reduction in Medicare, 2½ months later we do not have so much as a fare-thee-well about the specifics of it.

For Mr. Franks to ask grave questions about proposals in the administration to cut Medicare when we know this majority is committed to cutting Medicare and cut it to the tune of $270 billion to pay for the $245 billion tax cut but without advancing the specifics in time for the members of this committee and all of Congress to go home and talk to their constituents about it I think has just been a plain shame.

In fact, I was heartened with the chairman's remarks when he said that we owe it to the American people to give the specifics of these Medicare cuts out there in advance of our decision so they can evaluate it before we have to vote on it. Of course, he did go on to say, and I must note that he did not want that plan hanging out there too long before the vote.

I think that what we have here is an attempt to change the subject. This majority has committed on a very reckless plan to cut a program as fundamental to the American people as Medicare for purposes of paying for a tax cut. There is no coincidence there is a $270 billion Medicare cut and a $245 billion tax cut. It is to fund the tax cut that the Medicare program is being drawn down but the drawdown is going to hurt people. It is going to mean higher out-of-pocket costs and for many it is going to mean losing their choice of physician.

So they do not want to leave the details out there until the last possible minute because there will be a public outcry. But that is no way to govern a game of partisan gotcha for the American people on a program as critical as Medicare. We owe them more than that and I think it is a shame this hearing, instead of hauling you up here and accusing you of cooking the books and every other awful thing I have heard this morning, would have been better directed to what is immediately in front of the country—not a 1993

speech to Congress by the President, but the proposed cuts to Medicare that are going to hurt the American people.

Thank you.

Ms. RIVLIN. I think that is right. We really need to get back to the substance of this discussion. We have two budget proposals before Congress. One is an extreme proposal that makes deep cuts in Medicare and Medicaid and other programs like education and technology while providing for a very large tax cut. The other is a more moderate proposal, and we think it represents the common ground on which most voters stand. It makes smaller cuts in programs, preserves investments in the future, and contains a smaller tax cut.

Mr. ALLARD. I thank the gentleman for yielding back the balance of his time. I just have to make two comments at this point. I think most members of this committee, when the President made his comment before the House of Representatives assumed that he would stick with CBO figures for longer than 3 months. I would have been perfectly happy with a year. I do not think that anybody is expecting perpetuity, and I understand that times change, but certainly this particular member would have expected it to last longer than 3 months and would have preferred more that it would have been in terms of a year.

Ms. RIVLIN. It has been 2½ years since we used the CBO economic assumptions.

Mr. ALLARD. If Director Rivlin would give me a chance to finish my quick comment. The other point that I would make is that four members of this committee have released some details on how we got to the Medicare savings.

Now, I would call on the gentleman from Ohio, Mr. Hoke.

Mr. HOKE. Thank you for the time, Mr. Chairman.

I just want to make one quick comment before I ask a couple of questions. I am actually going to ask you some policy questions.

Ms. RIVLIN. Really?

Mr. HOKE. Yes. The first is that the fact is that we are going up from $178 billion on Medicare spending to $260 billion in our budget. I do not know how you can go from what is $4,800 per year per beneficiary to $6,700 per year per beneficiary and call that a cut. It is not a cut. It is clearly an increase in the amount of money that we are spending on an annual basis every single year over the period of this budget proposal.

And the Democrats consistently and over and over use this technique to call this a cut and it simply is not true. It is a falsehood to call that a cut, except, I suppose perhaps, inside of Washington, DC, when you increase spending that way.

The other thing I want to say is that with respect to this argument about CBO and OMB and what scoring you should have used, I think it is pretty obvious what is going on. The administration needed to come up with something that looked like a balanced budget. The President made a political calculation and decided that it was time to, yes, after not getting one vote in the Senate, that maybe we needed a balanced budget. And that we ought to come up with our own and that if we, as pointed out by Mr. Olver, I mean we changed by one-tenth of a percent, and we can change some assumptions.

But the fact is it has backfired. Because clearly you have cooked the books in a way to make it work for you and I will leave that with just one comment. I think that the Post got it best when they said editorially that, "In pursuit of a few untrammelled headlines, President Clinton and some of the senior people that advise him on such matters, converted an uphill fiscal problem into a credibility problem as well."

And I think that is obvious. It is obvious from the discussion this morning. It is obvious from much editorializing about this. I do not know if you are one of the senior people who advised him to do that or not. I am not particularly interested in whether or not you are but I think it is just dumb. It should not have been done that way and Mr. Parker is right, it is much easier to use the conservative numbers, and I will leave it.

I do have some policy questions. I would like to go to page 28 of your mandatory outlay proposals. And ask you what the assumptions are underlying some revenue increases that you claim there in the years 2002, 3, 4, and 5 with respect to spectrum auctions?

You said that you are going to expand the spectrum auctions. You are claiming increased revenues of about $35 billion over a 10-year period. Some of those come from royalty fees that you expect to institute under current law. Some come from the Stevens amendment on the telecom bill. We can track those but what are your policy assumptions with respect to these expanded spectrum auctions? What baud, what band with, what are you selling?

It is a lot of money, we are talking about——

Ms. RIVLIN. It is a lot of money and we have been working with the FCC on exactly what would be done here. It involves the shift from the analog to the digital spectrum. I can supply you with a description of what we are doing.

Mr. HOKE. Well, let me ask you more questions. Because the last time we were here I asked you to supply me with information that I had also asked you to supply with me in the Judiciary Committee. I wrote several letters asking to have that information supplied, repeatedly, Dr. Rivlin, and I never received a response. I would like to explore this a little bit more.

Ms. RIVLIN. I am very sorry to hear that.

Mr. HOKE. Well, I am disappointed to have to disclose it to you, but that is a fact. When you say that it has to do with shifting analog to digital, are you talking about PCS, are you talking about cellular?

Ms. RIVLIN. You have gone beyond my competence here. I am going to have to get you together with the experts on it.

Mr. HOKE. I am very disappointed with that answer. We are talking about $27 billion and you are telling me that you do not have any idea where it is coming from.

Ms. RIVLIN. I am saying that we have a very good idea where it is coming from, but I cannot explain it to you this morning. I will be very happy to get you together with the people who can.

Mr. HOKE. Well, I protest because you have been saying, I have heard the litany over and over, we are grandstanding, and we are here just to throw stones and we are not here to talk about policy. And the first substantive policy question that is asked of you——

Ms. RIVLIN. I failed the test. I am really sorry, but, as you know, it is a very technical question. I would be very happy to——

Mr. HOKE. It is not a technical question, Dr. Rivlin. It is a question, a very simple policy question about where you are going to come up with $27 billion in additional revenues in the farthest outyears claiming money for auction of spectrum without any detail as to which spectrum we are talking about.

Ms. RIVLIN. We have the detail and I will get it to you. I am sorry, but I am not sufficiently familiar with the lingo to give it to you today.

Mr. ALLARD. I am going to have to call on the next member on this committee.

Mr. HOKE. I am just interested in being certain about when we are going to hear back on this.

Ms. RIVLIN. How about tomorrow?

Mr. HOKE. That would not be too soon.

Ms. RIVLIN. Fine.

Mr. ALLARD. I would like to now call on the gentlewoman from California, Ms. Woolsey.

Ms. WOOLSEY. Thank you, Mr. Chairman.

Talk about ironies. Here we are sitting arguing over baseline budget numbers that we are never going to agree on, because in my greatest fantasy, I cannot believe that we will be able to come up with a number that will convince the majority to agree with us. Because I believe in my heart of hearts that what the majority really wants to be doing is embarrassing the President.

So, here we sit, and the House of Representatives is debating the huge impact of the Republican budget, which includes devastating cuts to programs that cover seniors and children and middle-class American families. So, here we are, and it seems like I am the only person here who has a memory, and has learned something from the 1993 budget.

That was my first year here, and we were using OMB numbers, and the then-minority party was absolutely certain that those numbers were going to be devastating to the deficit. They were certain that we were going to wreck this country. Why doesn't anybody remember that? I mean it was not true. The country's economic performance demonstrates that the President was right on, and that his numbers are accountable, and that we should be believing in the accountability of the OMB numbers.

So my question to you—I would really like to be asking you how you think what we are doing on the floor today is going to affect welfare and education—but first, I would like to ask you if you think, in your greatest fantasy, if there are any set of numbers—of common assumptions—that we, the President and the Republican Party, would be able to agree on? I think the Republicans are going to keep moving to the right so that the President cannot possibly be in agreement with them. Can you think of any way that it can happen differently, or am I just a pessimist?

Ms. RIVLIN. I don't know what will happen. I hope that when all this rhetoric is over, we will still have the will to actually make a budget. I think it will be very easy to get together on the assumptions. It will be harder to get together on the policies. As you point

out, there are big differences between the parties in terms of tax cuts, Medicare, and other spending issues.

I think a compromise is possible, but I do not hear anybody talking about that right now.

Ms. WOOLSEY. Well, if I have just a moment, these drastic cuts in job training, education, child care, and housing that the House Appropriations Committee has proposed; how do you think these cuts are going to affect welfare reform and our efforts to get people off welfare and keep them off welfare in the long term? Is it fair to ask you that this morning?

Ms. RIVLIN. Yes. I think it will be very difficult. We know at least two things about welfare reform. First, we all want it. Second, it is going to be very difficult. Moving people who lack skills and have little children into jobs involves training and child care. That costs something.

If we cut back on those very training and child care programs, we set back the possibility of moving more people off welfare and into the work force.

Ms. WOOLSEY. And these are the very services that we need. Well, let me ask you one more thing as long as I have got a little bit of time left. Regarding the cuts in higher education and student loans, how do you think the proposed cuts will affect people on welfare and our youth? How will the cuts affect keeping kids in school and providing this country with a job force for the future?

Ms. RIVLIN. I am particularly worried about the student loan cuts. The administration has actually saved money on student lending by cutting out the middle man and moving to the direct student lending program. We also have tried to encourage people to get education beyond high school by increasing the Pell grant award. The majority would like to move in the opposite direction and by loading heavier costs of borrowing on the students. That will make it more difficult for them to get an education.

Ms. WOOLSEY. Poor and middle-class families?

Ms. RIVLIN. Right.

Ms. WOOLSEY. Well, all right, I would like to just end with a comment. In private industry you evaluate performance and then you put your faith in your workers and the people that are around you, based on their performance. And the President has proven to us that his budgets are successful, and I think we should have more faith in them.

Thank you.

Mr. ALLARD. Thank you, very much.

I was the last one on the Republican side so I will now take my time and ask you some questions. But before I do that, it is my understanding, Ms. Woolsey, that right now the CBO is scoring the student loan program as a cost. Originally there was a savings scored on it, but now I understand that it is a cost. I do not think that we reduced the number of recipients on that. Again, that is one of those examples where I guess there is a disagreement between OMB and CBO and that is why it is so important that we go ahead and get to some uniform procedure and method in what we can work with some reliable numbers.

I will go ahead and take my time now and ask some questions that I have and take my 5 minutes to do that. What is the Presi-

dent's goal with this budget? Is his first priority to balance the budget by cutting spending?

Ms. RIVLIN. The President's goal is to raise the standard of living for average Americans.

Mr. ALLARD. No, but I mean fundamentally and I do not want to get into a big——

Ms. RIVLIN. That is very fundamental.

Mr. ALLARD. I mean this is the budget. This is not Health and Human Services. We are not talking about income redistribution. I would like to have a simple answer. No. 1, is his No. 1 priority balancing the budget or not? I mean if he has got a plan you ought to be able to answer that question.

Ms. RIVLIN. The President's goal is to have a balanced budget, but one that does not devastate the economy in the process.

Mr. ALLARD. Is it his No. 1 goal?

Ms. RIVLIN. I think I have to return to my original answer. His No. 1 goal is to raise the standard of living for average Americans in the future. There are a couple of ways of doing that. One is by reducing the Federal deficit and the other is by shifting Federal spending toward investments in families and skills and education. The President's plan contains all of those objectives.

Mr. ALLARD. I think you have answered the question. His No. 1 goal is not deficit reduction.

Ms. RIVLIN. No. His No. 1 goal is raising the standard of living for average Americans.

Mr. ALLARD. So, you know, really what kind of motivation does he have to worry about the legitimacy of his numbers or whether he even has numbers? I mean he is interested in spending. He has got a whole different set of goals out there than what this committee has. This committee had come up with their finance plan, a specific goal that they were going to bring the deficit under control and they were going to do it by holding down spending.

And so I guess there is a fundamental difference right at the very start here between the President and this committee and this Congress. That is that we think that getting the budget under control, reducing spending, along with 80 percent, I might add, of the American people, and eliminating deficit spending is the priority. That is not his No. 1 goal.

Ms. RIVLIN. The President believes the budget is a tool for improving the economy and he believes we must reach balance. We have proposed a series of measures that will enable us to do that. But we do not want to do it at all costs.

Mr. ALLARD. See, my point is that we can talk about how we get there, but fundamentally there is a difference between the President and this Congress and that we want to balance the budget and that he does not.

Ms. RIVLIN. No, that is not true.

Mr. ALLARD. But you told me that his No. 1 goal was not to balance the budget. And so he gives us a plan that tries to sound good, but in reality it carries on with $200 billion deficits out as far as the eye can see.

Ms. RIVLIN. Not true.

Mr. ALLARD. And with that kind of a goal, I can understand why the President would not want to seriously come up with the figures

for this committee, why he would not be that concerned if the figures do not match, whether they come from CBO or OMB.

Ms. RIVLIN. The President is very concerned with balancing the budget, for a very important reason: He believes that excessive government borrowing is bad for the economy. But there are other things that are bad for the economy, such as cutting vital services that people need.

Mr. ALLARD. We have heard you say, on this committee, that you are concerned about the tax cuts. Would he support the Republican budget if there were not any tax reductions in it?

Ms. RIVLIN. No. Because the Republican budget——

Mr. ALLARD. Let me ask you this, would he support spending at a rate of 2 percent or 3 percent or 4 percent or 5 percent? What specific rate of spending increases would he support?

Ms. RIVLIN. It is impossible for me to answer that question unless we talk about particular kinds of spending. We think some kinds of spending are more important than others.

Mr. ALLARD. I would have to agree with the chairman. This whole thing is a charade and it is a farce because if you had a plan in front of you, you could tell me today what you planned on as a spending increase. This committee will tell you what our planned increase is because we have a plan before us.

You cannot do it or you refuse to do it. I wrote you a letter to get specifics on the Department of Agriculture on where you are going to cut spending and how you are going to put together the budget. And you did not respond. So my time has run out. I just have to conclude that there is obviously no plan. There is no specifics and the whole thing is a charade.

Ms. RIVLIN. That is not true, Mr. Chairman.

Mr. ALLARD. If it were not true, you could answer my questions. And you absolutely cannot or will not answer those questions.

Ms. RIVLIN. You asked me a series of hypothetical questions about what the President would support. I cannot answer those in the absence of——

Mr. ALLARD. I do not want to be argumentative with the witness but——

Ms. RIVLIN. No?

Mr. ALLARD [continuing]. But the point is that I asked you for a figure. You had criticized previous members of this committee for not getting down to policy and Mr. Hoke just finished asking you a policy question and I just finished asking you a policy question and you cannot answer it or will not.

Ms. RIVLIN. I am sorry, I cannot answer what? Maybe I misunderstood you.

Mr. ALLARD. What rate of spending increase would you accept——

Ms. RIVLIN. Over what period of time?

Mr. ALLARD [continuing]. Over the next 5 years, or the next 7 years or the next 10 years? Give me a rate of increase that you would accept.

Ms. RIVLIN. Well, we can calculate for——

Mr. ALLARD. My time has expired and let me go ahead and call on the next member of the committee because I do want to be fair to her. Go ahead if you would, please.

Mrs. MEEK. Much of what I have heard here today I have heard since the time I came to this committee and it is pretty much like some kind of intramural round robin. Where the Republicans make great claims on their budget and the President comes in with his and there is CBO, there is OMB, there are any number of acronyms in the budget battle.

These things are important, I am sure, but I think every party and every person, here in the Congress, has to have as their first priority the people of this country. I think we have become so embroiled in this intramural fight that we cannot think about one major thing.

What we have thought about, however, is balancing the budget regardless of how it is balanced. I have sat here and I have pleaded many times with the majority party regarding the draconian cuts which I see happening here in this committee. And they want to reduce the revenue by $350 billion over 7 years. Now it does not take a Ph.D. to figure out, Dr. Rivlin, that there is absolutely no way to do that unless you do some draconian things.

People are not important here. What is important here is bringing up some basic assumptions that will get us there. And those basic assumptions do not take into consideration making the drastic cuts that are going to hurt people, these major cuts, which I keep talking about.

No one is thinking about the fact that they have 16 to 18 tax cuts in here for the rich. No one is thinking about that because the whole scenario, as I perceive it, is one which brings about tax cuts for the rich and spending cuts so you can balance the budget.

But what they are not thinking about is that some goals have been set by the major party but you know what they forgot? When you set goals, you must have strategies to reach those goals. Strategies which are clearly delineated and specific enough for the American public to understand.

They have not done that. They have come up with some broad empirical statements but they do not have where they are going to take the specific cuts, and how they are going to operate them. So what they have done is shifted money from one place to the other.

Now, you cannot say to me now that they have not shifted most of the money into the military budget. I have sat on the appropriations, I am sitting here. I see them shifting money around, but the money has not been touched in the military.

My question to you is: why could we not balance the budget if we did go into the military budget? Could we not have come closer to balancing the budget if we had paid more attention to the military expenditures? I will answer my own question and then I want you to answer it. I think we could have come closer to balancing the budget in 7 years.

But I want to tell you something, I am not that hung up on balancing the budget in 7 years. I am not hung up on it as the President is in 10 years. I think he got on the bandwagon that the Republicans started beating to death.

I am saying this country, for the past 12 years, has been in a deficit reduction stage. That is, that you have been below the amount of spending that you should be doing.

So why do we not get together? There is no way that anything can be resolved here unless all of you from OMB, CBO, the President and the Republican majority will sit down. You have a stalemate now. This country is looking. You are in a stalemate. What are you going to do, your backs are against the wall. That is my question.

Unless the Republicans yield some and get off this rhetorical intramural play we are doing here, we are going to be here 6 months from now.

My question to you is: can we use the military budget in order to bring this balance closer in the consideration than we have done? The little people out there need the help.

Ms. RIVLIN. I think you are asking the right questions. The President's military budget is the minimum that we think the military needs to keep the country safe. The Republican majority has added money for things that even the Pentagon did not want, weapons systems that are made in particular Members' districts and other kinds of projects that even the military feels are unwarranted and unnecessary. Without that additional spending, we could come closer to balancing the budget.

Mrs. MEEK. Thank you.

Mr. ALLARD. The gentlewoman's time has expired.

We are toward the end of the hearing here. I would like to give the ranking member an opportunity to give some summary and closing remarks if he so desires.

Mr. SABO. I thank the Chair and Ms. Rivlin, I thank you for coming. I must say that I watch and listen with some amazement today. The President, 2 years ago, presented a comprehensive budget proposal that the Congress passed. Most of my Republican friends at that time told us that it was going to increase the deficit, send the country into recession. The opposite happened and in reality the deficit came down more than the administration or CBO was projecting and the economy responded with real growth and with real increase in jobs.

The administration was right, Democrats in Congress were right 2 years ago, the Republicans were wrong. I hope now that they remember that they were wrong as they do their rhetoric on 1995.

Secondly, I commend and look forward to continuing to work with the administration as we try and find eventual common ground between the majority, the minority, and the administration for another budget plan in 1995.

But let me also commend you for the values you just stated. The budget is not something that we deal with as simply a grouping of numbers. It is ultimately about improving the lives of the American people. Improving the nature of our economy and improving economic and social justice in this country and doing it in a fiscally prudent way.

And those values that you and the President have represented are important as we go about this process because, frankly, there are enough people who just consider it simply a numbers game, and that it is not. And we need your values and your judgment as we move toward the eventual solution of really both the political and economic and budgetary dilemma that we face this year.

I thank you for your good work and your good counsel and look forward to continuing to work with you.

Ms. RIVLIN. Thank you, Mr. Sabo.

Mr. ALLARD. I would like to also thank you for showing up before this committee and the ranking member's remarks reminded me of some testimony that we had previously from another witness this year, Alan Greenspan. And he said the most significant thing we could do to make people feel good about this country was to get rid of deficit spending.

He said the markets would respond to that in a dramatic way. The interests rates would respond to that in a dramatic way and the American people would respond to it in a way that it would create greater opportunity for all Americans.

I have to say that I think the most important thing that we could do for people in this country is to get deficit spending under control. If we do not, their future, their children's future and their grandchildren's future is in serious, serious jeopardy.

This is a serious problem. This is not a time for game playing. We need to look at ways that we can come up with legitimate figures. This particular committee has not been bashful in coming up with a specific plan. But I would have to say, personally, that I am very disappointed that in trying to search for a balanced budget solution the President has been less than specific and less than forthcoming when we get down to the specifics in the budget.

My hope is that if we proceed to negotiate through some very difficult times, in the next month, I hope that the President will be willing to move more toward the middle and to look at what the Republicans are proposing and agree that the most important thing we can do for this country is to get deficit spending under control.

I thank the gentlewoman for being with us today. Thank you, very much.

Ms. RIVLIN. Thank you.

Mr. ALLARD. The committee will stand adjourned.

[Whereupon, at 1:54 p.m., the committee was adjourned, subject to the call of the Chair.]

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